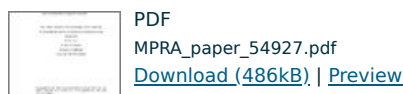


The stock market and economic development: should developing countries encourage stock markets?

Singh, Ajit (1991): *The stock market and economic development: should developing countries encourage stock markets?*
Published in: UNCTAD Review (1 January 1993): pp. 1-74.



Abstract

Abstract

In a famous passage in chapter 12 of the General Theory, Keynes observed: As the organisation of investment markets improves, the risk of the predominance of speculation does, however, increase. In one of the greatest investment markets in the world, namely, New York, the influence of speculation (in the above sense, i.e. 'the activity of forecasting the psychology of the market') is enormous. ... Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism...[Keynes, 1936, pp 158-159]

Today, however, as a part of a general trend towards liberalisation, deregulation, privatisation, the diminution of the role of the state and enhancement of that of the market which for various reasons is sweeping the globe - the North and the South, what remains of the East as well as the West - an important feature of the development of the financial sector in a large number of developing economies is the very fast growth of stock markets in these countries. The establishment and expansion of these markets is favoured not just by the Bretton Woods institutions, as one would expect, but also by many heterodox economists as well those from the centrally planned economies.

Item Type:	MPRA Paper
Original Title:	The stock market and economic development: should developing countries encourage stock markets?
Language:	English
Keywords:	North-South, stock markets, Bretton Woods, economic growth, developing and developed economies F - International Economics > F3 - International Finance G - Financial Economics > G1 - General Financial Markets G - Financial Economics > G2 - Financial Institutions and Services O - Economic Development, Innovation, Technological Change, and Growth > O1 - Economic Development
Item ID:	54927
Depositing User:	Ajit Singh
Date Deposited:	01 Apr 2014 06:06
Last Modified:	01 Oct 2019 13:00
References:	Bibliography Akyüz, Y., [1991], Financial Liberalization in Developing Countries: A Neo-Keynesian Approach, Discussion Papers, No. 36, March, United National Conference on Trade and Development (UNCTAD).

Acquisitions Monthly, [1990], "Acquiring in Germany," May.

Alchian, A.A. and Kessel, R.A., [1962], "Competition Monopoly and the Pursuit of Pecuniary Gain, in Aspects of Labour Economics", N.B.E.R., Princeton.

Amsden, A.H., [1989], *Asias's Next Giant*, New York: Oxford University Press.

Atkin, N. and Dailami, M. [1990], "Stock Markets in Developing Countries: Key Issues and a Research Agenda," World Bank Working Paper WPS 515, October.

Auerbach, A.J. [1979], "Wealth Maximization and the Cost of Capital," *Quarterly Journal of Economics*, Vol. 93.

Auerbach, A.J., and King, M.A. [1983], "Taxation, Portfolio Choice and Debt-Equity Ratios: A General Equilibrium Model," *Quarterly Journal of Economics*, 98, pp. 587-609.

Avramovic, D., [1988], "Conditionality: Facts, Theory and Policy-Contribution to the Reconstruction of the International Financial System," World Institute of Development Economic Research, Helsinki.

Berger, S., Dertuzos, M.L., Leicester, R.K., Solow, R.M. and Thurow, L.C., "A New Industrial America" *Scientific American*, Vol. 260, No. 6, pp. 390-46.

Cable, J. [1985], "Capital Markets Information and Industrial Performance: The Role of West German Banks," *Economic Journal*, March.

Camerer, Colin [1989], "Bubbles and Fads in Asset Prices", *Journal of Economic Surveys*, Vol. 3, No.1, pp. 32-40.

Cameron, R.E. [1967], *Banking in the Early Stages of Industrialization: A Study in Comparative Economic History*, New York, Oxford University Press.

Charkham, J., [1989], "Corporate Governments and the Market for Control of Companies," Bank of England, pannel paper No. 25, March.

Cho, Yoon Je [1986], "Inefficiencies from financial liberalisation in the absence of well- functioning equity markets", *Journal of Money, Credit and Banking*, vol. 18, no. 2, May.

Cho, Yoon Je. and Khatkhate, D., [1989] *Financial Liberalisation: Issues and Evidence*, *Economic and Political Weekly*, May 20.

Cosh, A.D., Hughes, A., and Singh, A. [1989], "Openness, Innovation and Share Ownership: The Changing Structure of Financial Markets", World Institute of Development Economics Research of the UN University, Helsinki, Working Papers No. 74, October.

Cosh, A., Hughes, A., Singh, A. [1990], "Takeovers and Short-Termism in the U.K.: Analytical and Policy Issues in the U.K. Economy," Institute for Public Policy Research, London.

Cottrell, P.L., [1980], *Industrial Finance 1830-1914*, Methuen.

De Angelo, H., and Masulis, R. [1980], "Optimal Capital Structure Under Corporate and Personal Taxation" *Journal of Financial Economics*, 8, pp. 3-81.

Donaldson, G. [1961], *Corporate Debt Capacity*, Graduate School of Business Research, Harvard University, Boston.

Dore, R.P. [1985], "Financial Structures and the Long-term View," *Policy Studies*, 6, pp.10-29.

Edwards, J.L. [1988], "Recent Developments in the Theory of Corporate Finance," *Oxford Review of Economic Policy*, Vol. 3, No. 4, pp. 1-12.

Elbaum, B. and Lazonick W. (eds.), [1986], *The Decline of the British Economy*, Clarendon Press.

Fazzari, S.M., Hubbard, R.G. and Peterson, B.C. [1988], "Financing constraints and corporate investment," *Bookings Paper on Economic Activity*, I.

Frank, J. and Mayer, C. [1990], "Capital markets and Corporate Control: A Study of France, Germany and the U.K.," *Economic Policy*.

Fry, M.J. [1988], *Money, Interest and Banking in Economic Development*, London.

Gerschenkron, A. [1962], *Economic Backwardness in Historical Perspective, A Book of Essays*, Cambridge, Belknap Press of Harvard University Press.

Greenwald, B., Stiglitz, J.E., and Weiss, A. [1984], "Information imperfection in the capital market and macroeconomic fluctuations," *American Economic Review*, Vol. 74.

Greer, D.F., [1986], "Acquiring in Order to Avoid Acquisition," *The Anti-Trust Bulletin*, Spring.

Grossman, S.J. and Hart, O.D. [1982]. "Corporate financial structure and managerial incentives" in J.J. McCall, (ed.), *The Economics of Information and Uncertainty*, The University of Chicago Press, Chicago.

Grossman, S.J. and Stiglitz, J.E. [1980], "On the impossibility of informationally efficient markets" *American Economic Review*, 70, pp. 393-408.

HMSO., [1989], *Barriers to Takeovers in the European Community (3 Vols.)*, London, HMSO.

Hughes, A., [1989], "The Impact of Merger: A Survey of Empirical Evidence for the U.K.," in J. Fairburn and J.A. Kay (eds.) *Mergers and Merger Policy*, Oxford.

Hughes, A. and Singh, A. [1987], "Takeovers and the Stockmarkets," *Contributions to Political Economy*, 6, pp. 73-85.

IFC, [1990], *Emerging Stock Markets Factbook, 1990*, International Finance Corporation, Washington D.C.

Jensen, M.C. and Meckling, W.M. [1976], "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, pp. 305-360.

Keane, S.M., [1983], *Stock Market Efficiency*, Philip Allan, Oxford

Keynes, J.M., [1936], *The General Theory of Employment, Interest and Money*, Harcourt, Brace and Company, New York.

Killick, J.R. and Thomas W.A. [1970], "The Provincial Stock Exchanges 1830-1870," *Economic History Review*, 2nd ser., 23.

King, M.A. [1977], *Public Policy and the Corporation*, Chapman and Hall, London.

MIT [1989], *MIT Commission on Industrial Productivity, Made in America: Regaining the Productivity Edge*, Cambridge, Mass. ,MIT Press.

McKinnon, Ronald, I., [1973], *Money and Capital in Economic Development*. Washington: Brookings Institution.

Mayer, Colin, [1988], "New Issues in Corporate Finance," *European Economic Review*, June.

Meade, J.S., [1968], "Is the "New Industrial Estate" Inevitable?," *Economic Journal*, June.

Meyer, J.R. and Kuh, E. [1957], *The Investment Decision: An Empirical Study*, Harvard University Press.

Meyer, J.R. and Glauber, R.R. [1964], *Investment Decisions: Economic Forecasting and Public Policy*, Graduate School of Business Administration, Harvard University.

Miller, M.H. [1977], "Debt and Taxes" *Journal of Finance*, 32, pp. 261-75.

MIT Commission on Industrial Productivity [1989], *Made in America: Regaining the Productivity Edge*, MIT Press, Cambridge Massachusetts.

Modigliani, F. and Miller, M.H. [1958], "The Cost of Capital, Corporate Finance and the Theory of Investment," *American Economic Review*, 48, pp. 201-297.

Modigliani, F. and Cohen, R., [1979], "Inflation, Rational Valuation and the Market", *Financial Analyst Journal*, March/April, pp.24-44.

Mullins, M. and Wadhvani, S.B., [1989], "The Effects of the Stock Market on Investment: A Comparative Study," *The European Economic Review*, Vol. 33, pp. 939-961.

Myers, S. [1977], "Determinants of Corporate Borrowing," *Journal of Financial Economics*, 5, pp. 147-75.

Myers, S.C. [1984], "The Capital Structure Puzzle" *Journal of Finance*, Vol. 39.

Myers, S.C. [1985], "Comment on Investment Patterns and Financial Leverage," in B. Friedman, (ed.), *Corporate Capital Structure in the United States*, University of Chicago Press, Chicago.

Myers, S.C. and Majluf, N.S. [1984], "Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have," *Journal of Financial Economics*, Vol. 13.

Nickell, S. and Wadhvani, S., [1987], 'Myopia, the "Dividend Puzzle" and Share Prices', London School of Economics, Centre for Labour Economics, London, Discussion Paper No. 272.

Odagari, H. and Hase, T., [1989], "Are Mergers and Acquisition Going to be Popular in Japan too? An Empirical Study," *International Journal of Industrial Organisation*, Vol. 7, No. 1, March, pp. 49-72.

Ordoover, Janusz and Weiss, A., "Information and the Law: Evaluating Legal Restrictions on Competitive Contracts," *American Economic Review*, 71 (May 1981).

Poterba, M. and Summers, L.H. [1985], "The Economic Effects of Dividend Taxation," in E.I. Altman and M.G. Subrahmanyam, (eds.), *Recent Advances in Corporate Finance*, Homewood, Illinois.

Poterba, M. and Summers, L.H., [1988], "Mean Reversion in Stock Prices: Evidence and Implications," *Journal of Financial Economics*, Vol. 22, pp. 27-59.

Ross, S.A. [1977], "The Determination of Financial Structures: The Incentive Signalling Approach," *Bell Journal of Economics*, 7, pp. 23-40.

Sachs, J.D. [1987], "Trade and Exchange Rate Policies in Growth Oriented Adjustment Programmes", in World Bank, *Growth Oriented Adjustment Programmes*, Washington, DC.

Schwert, G.W., [1989], Why Does Stock Market Volatility Change Over Time? *The Journal of Finance*, Vol. XLIV, No. 5, December.

Sharma, J.L., [1983], "Efficient Capital Markets and Random Character of Stock Price Behavior in a Developing Economy," *Indian Economics Journal*.

Shaw, Edward., [1988], *Financial Deepening in Economic Development*. New York: Oxford University Press.

Shiller, R.J., [1981], "Do Stock Prices Move too much to be Justified by Subsequent Changes in Dividends? *American Economic Review*, Vol. 71, pp. 421-436.

Singh, A. [1971], *Takeovers: their Relevance to the Stock Market and the Theory of the Firm*, Cambridge University Press, Cambridge.

Singh, A. [1975], "Takeovers, Economic Natural Selection, A and the Theory of the Firm: Evidence from the Post-War U.K. Experience," *Economic Journal*, September.

Singh, A. [1987], "Manufacturing and De-industrialisation," in *The New Palgrave*, London, Macmillan.

Singh, A. [1989], "Third World Competition and De-industrialisation in Advanced Countries," *Cambridge Journal of Economics*, Vol. 13, March, pp. 103-120.

Singh, A. [1990], "The Institution of a Stock Market in a Socialist Economy: Notes on Chinese Economic Reform" in P. Nolan and Dong Fueng, (ed.), *The Chinese Economy and its Future*, Cambridge, Polity Press.

Singh, A and Hamid J [1991], "Corporate financial structures in developing countries", Economics Department, IFC, Washington, D.C. Forthcoming as an IFC Technical Paper.

Stiglitz, J.E. and Weiss, A., "Credit Rationing in markets with Imperfect Information." American Economic Review 71, No. 3, (June 1981), 393-410.

Stiglitz J.E. and Weiss, A., "Incentive Effects of Termination: Applications to the Credit and Labor Markets." American Economic Review 72: 912-27.

Stiglitz, J.E. [1985], "Credit Markets and the Control of Capital," Journal of Money Credit and Banking, Vol. 17, No. 2.

Stiglitz, J.E. and Weiss, A., [1986], "Credit Rationing and Collateral," in J. Edwards, J. Franks, C. Mayer and S. Schaefer, eds., Recent Developments in Corporate Finance, Cambridge University Press, pp. 101-135.

Stiglitz, J.E. and Weiss, A., (Forthcoming), "Banks as Social Accountants and Screening Devices and the General Theory of Credit Rationing," In Essays in Monetary Economics in Honor of Sir John Hicks, Oxford, England: Oxford University Press.

Subrahmanyam, M.G., On the Optimality of International Capital Market Integration, Journal of Financial Economics 2 (1975), 3-28, U.S.A.

Sudweeks, Lorin, B., [1990], Equity Market Development in Developing Countries, New York Westport, Connecticut, London.

Summers, L.H., [1986], "Does the Stock Market Rationality Reflect Fundamental Values?," Journal of Finance, July.

Taggart, Jr, R.A. [1985], "Secular Patterns in the Financing of U.S. Corporations in B.M. Friedman, (ed.), Corporate Capital Structure in the United States, University of Chicago Press, Chicago.

Titman, S. and Weiss, R. [1988], "The Determinants of Capital Structure Choice," The Journal of Finance, Vol. XLIII.

Tobin, J. [1984], "On the Efficiency of the Financial System," Lloyds Bank Review, July, pp. 1-15.

WIDER, [1990], Foreign Portfolio Investment in Emerging Equity Markets, Study Group Series No. 5, World Institute for Development Economics Research of the United Nations University, Helsinki.

Williamson, O.E. [1988], "Corporate Finance and Corporate Governance," The Journal of Finance.

Zhao, Zi Yang, [1988], Report to the 13th National Congress of the Communist Party of China, Beijing Review Publications, 1988.

URI: <https://mpra.ub.uni-muenchen.de/id/eprint/54927>

All papers reproduced by permission. Reproduction and distribution subject to the approval of the copyright owners.



View Item

Contact us: mpra@ub.uni-muenchen.de

Atom RSS 1.0 RSS 2.0

This repository has been built using [EPrints software](#).

MPRA is a [RePEc](#) service hosted by  **Universitätsbibliothek
Ludwig-Maximilians-Universität München**

Munich Personal RePEc Archive

[Privacy Statement](#)

[Copyright and Disclaimer](#)