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Research Article

Finance, institutions and economic development

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Abstract

Using data from 72 countries for the period 1978–2000, we find that financial development has larger effects on GDP per capita when the financial system is embedded within a sound institutional framework. Moreover, we find that financial development is most potent in middle-income countries, where its effects are particularly large when institutional quality is high. Importantly, we also find that in low-income countries the influence of financial development is at its weakest; in these countries, more finance without sound institutions may not succeed in delivering long-run economic benefits. Copyright © 2006 John Wiley & Sons, Ltd.

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