Finance and Macroeconomic Volatility

Cevdet A. Denizer, Murat F. Iyigun and Ann Owen

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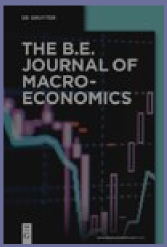

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Abstract

Countries with more developed financial sectors experience smaller fluctuations in real per capita output, consumption, and investment growth. However, the manner in which the financial sector develops matters. The relative importance of banks in the financial system is important in explaining GDP, consumption, and investment volatility, and the proportion of credit provided to the private sector explains the volatility of consumption and output. The main results are generated using fixed-effects estimation with panel data from 70 countries covering the years 1956 through 1998.

Keywords: Financial Development; Economic Fluctuations; Business Cycles

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