

Applied Economics >

Volume 37, 2005 - [Issue 12](#)

1,828 67

Views | CrossRef citations to date | Altmetric

6

Original Articles

# Financial development and economic growth: the case of Taiwan

Tsangyao Chang & Steven B. Caudill \*

Pages 1329-1335 | Published online: 16 Aug 2006

🗨️ Cite this article   🔗 <https://doi.org/10.1080/0003684042000338702>

Sample our  
Economics, Finance,  
Business & Industry Journals  
>> **Sign in here** to start your access  
to the latest two volumes for 14 days

📄 Full Article

📊 Figures & data

📖 References

🗨️ Citations

📊 Metrics

📄 Reprints & Permissions

Read this article

🔗 Share

## Abstract

This paper examines the relationship between financial development and economic growth in Taiwan from 1962 to 1998. Using a four-variable VAR model, the competing hypotheses of demand-following versus supply-leading are empirically tested. The results from Granger causality tests based on vector error-correction models (VECM) suggest unidirectional causality running from financial development (measured as the ratio of M2 to GDP) to economic growth. This result supports the supply-leading hypothesis for Taiwan. This finding highlights the importance of financial development in Taiwan's recent growth.

< Previous article

View issue table of contents

Next article >

## Notes

An alternative measure calculated as the ratio of liquid liability to GDP was also used in this study. Results are similar to those reported here and are available upon request from the authors.

The sample period for the data, 1962–1998, covered two oil-price shocks and the economic liberalization in Taiwan, so structural breaks are expected for the data series studied.

Regarding the KPSS test, Lee et al. ([1997](#)) also show that the test suffers from a size distortion problem if a structural break exists but is ignored. The problem parallels the power loss problem of unit root tests when an existing break is ignored.

When the coefficients of both dummy variables are not significantly different from zero, Model C reduces to the standard ADF equation.

Using Monte Carlo simulations, Cheung and Lai ([1993](#)) showed that for autoregressive processes, standard selection criteria, like the SIC and Akaike Information Criterion (AIC), can be useful for selecting the correct lag structure for the Johansen's cointegration test. They found that the SIC performs slightly better than the AIC.

#### Related Research Data

[Testing the null hypothesis of stationarity against the alternative of a unit root](#)

Source: Journal of Econometrics

[Financial development and economic growth in Singapore: demand-following or supply-leading?](#)

Source: Applied Financial Economics

[The Role of Financial Intermediation in Economic Growth in Sub-Saharan Africa](#)

Source: Canadian Journal of Development Studies/Revue canadienne d'études du développement

[Autoregressive modelling and money-income causality detection](#)

Source: Journal of Monetary Economics

[Financial Development and Economic Growth: The Tunisian Experience](#)

Source: Review of Development Economics

[Further Evidence on the Great Crash, the Oil-Price Shock, and the Unit-Root Hypothesis](#)

Source: Journal of Business and Economic Statistics

[Causality tests in econometrics](#)

People also read

Recommended articles

Cited by  
67

Technology and economic development: the case of Taiwan >

Haider A. Khan \*

Journal of Contemporary China

Published online: 7 Aug 2006

## Information for

Authors

R&D professionals

Editors

Librarians

Societies

## Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

## Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

## Help and information

Help and contact

Newsroom

All journals

Books

## Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2026 Informa UK Limited [Privacy policy](#)

[Cookies](#) [Terms & conditions](#) [Accessibility](#)

Registered in England & Wales No. 01072954  
5 Howick Place | London | SW1P 1WG



Taylor & Francis  
by informa