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Does financial development 'lead' economic growth? A vector auto-regression appraisal

Jordan Shan

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Abstract

Using a Vector Autoregression (VAR) approach, several hypotheses are re-examined
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Notes

Any significant ‘on average' relationship across different countries is likely to be sensitive to the addition or deletion of a few observations in the sample.

The Microfit program sets the 'shock’ equal to one standard deviation of the particular time-series used to 'shock’ the VAR system.

This is not a test of hypothesis in the manner of a Granger causality test that has well defined test statistics and critical values.

Productivity is the weighted average of labour productivity and capital productivity where the weights are the shares of these factors in GDP.

Investment and productivity are not independent because investment plant and equipment often embodies new technology that raises productivity.

The measure is slightly different from Levine and Zervos (1998) who differentiate between credit to the public and private sectors. Because of data limitations, we treat total credit as credit to the private sector.

Overnight cash rate.

It is arguable that this proxy is less than ideal for measuring stock market development. Whilst some countries in the sample have an extensive range of stock market data that would be useful for measuring development, others do not. In using a common indicator one is left with little other than a price index.

The authors will make available a detailed Data Appendix on request.

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