







Q

Home ► All Journals ► Economics, Finance & Business ► Applied Economics ► List of Issues ► Volume 41, Issue 13 ► Causality between financial development

Applied Economics >

Volume 41, 2009 - Issue 13: Special Theme: The applied economics of economic growth

829 31 O Altmetric Original Articles

Causality between financial development and economic growth: an application of vector error correction and variance decomposition methods to Saudi Arabia

Mansur Masih ☑, Ali Al-Elg & Haider Madani

Pages 1691-1699 | Published online: 08 Feb 2010



Full Article

Figures & data

Metrics

➡ Reprints & Permissions

Read this article

Share

Abstract

This article makes an attempt to test the possible directions of causality between financial development and economic growth, which were labelled by Patrick (1966) as the supply-leading and demand-following hypothesis. Saudi Arabia is taken as a case study. The methods applied are the error correction and variance decompositions techniques including the most recently developed 'long-run structural modelling (LRSM)' (Pesaran and Shin, 2002), which by imposing exactly identifying and overidentifying restrictions on the cointegrating vector has taken care of a major limitation of the conventional cointegrating estimates in that they were atheoretical in nature. To the best of our knowledge, there has not been any study on this issue with the application of the techniques that incorporate 'LRSM'. The stability of the functions

has also been tested by Cumulative Sum (CUSUM), Cumulative Sum of Squares (CUSUMSQ) and Chow Test (CHOW) tests. Our findings, based on the above mentioned rigorous techniques, tend to suggest that the direction of causation between financial development and economic growth is supply-leading (rather than demand-following), as expected at the early stage of development. These findings have clear policy implications in that a pro-active policy of growth and reform of the financial sector will help enhance economic growth in an open developing economy like Saudi Arabia.

Acknowledgements

The authors are thankful to King Fahd University of Petroleum & Minerals for their generous support. The corresponding author is also grateful to Saudi Aramco for sponsoring the Chair in Energy Economics. We are also grateful to Mr Lurion De Mello for his excellent research assistance.

Related Research Data

Public Enterprise for Whom? Perverse Distributional Consequences of Public

Operational Decisions

Source: Economic Development and Cultural Change

Finance, investment, and growth: Time series evidence from 10 Asian economies

Source: Journal of Macroeconomics

Financial Structure and Economic Development

Source: Economic Development and Cultural Change

Of finance and development: Neglected and unsettled questions

Source: World Development

Financial Development and Economic Growth in Underdeveloped Countries

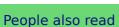
Source: Economic Development and Cultural Change

Finance and Growth: Schumpeter Might Be Right

Source: The Quarterly Journal of Economics

Community Studies in China

Source: The Far Eastern Quarterly



Information for Open access

Authors Overview

R&D professionals Open journals

Editors Open Select

Librarians **Dove Medical Press**

Societies F1000Research

Opportunities Help and information

Reprints and e-prints Help and contact

Advertising solutions Newsroom

Accelerated publication All journals

Books Corporate access solutions

Keep up to date

Register to receive personalised research and resources by email



Sign me up











Accessibility



Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions

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

Taylor and Francis Group