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# The bounds test approach for cointegration and causality between financial development, international trade and economic growth: the case of Cyprus

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contradicts our initial expectations, it indicates the importance of capital inflows in

Cyprus that plays a major role in financing the investments mainly in the tourism sector. As a final point, the results of this study reveal that the supply-leading, export-led growth and import-led growth hypotheses are not confirmed by this study whereas the demand-following hypothesis can be justified for the Cypriot economy when M2 measure of money supply is under consideration.

## Notes

<sup>1</sup> PP approach allows for the presence of unknown forms of autocorrelation with a structural break in the time series and conditional heteroscedasticity in the error term.

<sup>2</sup> For detailed information, please refer to Pesaran et al. ([2001](#), pp. 295–96).

<sup>3</sup> Unit-root tests for trade volume was not reported in [Table 1](#) but are available on request.

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