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Applied Economics ›
Volume 44, 2012 - Issue 27

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A re-examination of financial development, stock markets development and economic growth

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Pages 3479-3489 | Published online: 17 Jun 2011

Cite this article https://doi.org/10.1080/00036846.2011.577019

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Keywords:

financial development

stock market development

economic growth

panel regression

Granger causality tests

JEL Classification::

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Acknowledgements

The present research was conducted by the research fund of Dankook University in 2010.

Notes

Jung-Suk Yu is ‘the first author’ of this article.

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2 Omittir ... .) the positive ... ntrolling for stock ma ... ent impact on econ ... n but it is difficu ... omic succ

3 The Wo ... ncome countrie ... ographic regions. ... el of financial ... some degree.

[4] Levine (1997) and Khan and Senhadji (2000) survey a large amount of empirical research that deals with the relation between the financial sector and long-run growth.

[5] They find that stock markets and banks positively influence economic growth using a panel dataset for the period of 1976 to 1998 and applying Generalized Method of Moments (GMM) techniques for dynamic panels.

[6] According to 2009 Gross National Income (GNI) per capita, the four income groups are divided into low income ($995 or less), lower middle income ($996–3945), upper middle income ($3946–12 195) and high income ($12 196 or more) based on World Bank classification.

[7] Despite the well-known shortcomings coming from aggregations, we believe that our approach to construct panel dataset, based on geographic regions and income groups, has several advantages to provide useful policy implications compared to previous literature on cross-sectional studies including many numbers of heterogeneous countries. In addition, if we use 5-year averages, rather than using annual data, to abstract from business cycle, our 29-year sample period (1980 to 2009) only provides six time-series. Therefore, it is very difficult to perform multivariate time-series analysis to examine the causality between finance and growth due to the small degree of freedom.

[8] Some c [illegible] n from banks ar [illegible] o take into account [illegible] shares on domesti [illegible] to deal with the diffe [illegible] se') and market-l [illegible]

[9] We [illegible] ore speci [illegible] c regions and the [illegible]

[10] Innova [illegible] s projection of Y(t) in [illegible]

[11] To be [illegible] introduce a contemp [illegible] g element in the j-th column of matrix V when we introduce one SD shock in the j-th variable.

[12] Multicollinearity problem reduces as sample size increases from the cross-sectional to the panel dataset. In addition, if multicollinearity would be a serious problem, it is expected to have high R^2 but few significant t ratios in panel least squares regression. However, we find that the estimated parameter values for several proxy measures (e.g. DCBS, DCPS, Gross Domestic Savings (GDS)) are statistically significant, implying that our panel regression could disentangle explanatory variables successfully although we included several financial and stock market development indicators simultaneously like most of exisiting literature (see King and Levine, 1992; Khan and Senhadji, 2000; Al-Awad and Harb, 2005, among others).

[13] The results of cointegration tests are not shown to conserve the space and are available upon request.

[14] Similarly, GDS shocks explain 14.8585% (12.0161%) of GDPG fluctuations in 10 years (5 years) ahead for VEC model.

[15] Note that the emphasis in Granger causality tests is on short-run relationship because the results of panel regression and cointegration tests strongly imply the presence of long-run linkages between financial development and economic growth.

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Shaw ford University Press, 1973, xii + 260 pp. ($7.50 cloth, $3.50 paper)

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