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Interest rates, saving, investment and growth in Mexico 1960–90: Tests of the financial liberalisation hypothesis

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Abstract

The theory of financial liberalisation argues that rising real interest rates induces more saving and investment and therefore acts as a positive stimulus to economic growth. This hypothesis is tested for Mexico over the period 1960–90, making the important distinction between financial saving and total saving. Financial saving is found to be positively related to real interest rates partly through capital flows and partly through domestic asset substitution, but total saving is invariant with respect to real interest rates. In the long run, the hypothesis is supported, but the short-run effects are mixed. McKinnon's hypothesis is supported in the long run, but the short-run effects are mixed. The financial liberalisation hypothesis is supported in the long run, but the short-run effects are mixed. The financial liberalisation hypothesis is supported in the long run, but the short-run effects are mixed.

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