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Stock Market Liquidity and Economic Growth: a Critical Appraisal of the Levine/Zervos Model

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Abstract

Levine & Zervos (1998) presented cross-country econometric evidence showing that,
in a sam ... positive
influenc ... s results are
not robu ... n which they
control f ... or outliers,
stock ma ... e on GDP
grow

Keywor

Notes

See also, for example, Arestis and Demetriades (1997), Arestis et al. (2001), Atje and Jovanovic (1993) and Harris (1997).

Levine (2003) surveys the full range of his research with various collaborators on the relationship between national financial structures and economic growth. This paper acknowledges some general methodological problems with the econometric techniques used in his 1998 paper with Zervos. But the overall thrust of his survey is supportive of both the techniques and the specific results of the 1998 paper. Our current paper replicates only this 1998 Levine/Zervos study. But we suspect that Levine's related work surveyed in his 2003 paper may suffer from similar problems of fragility due to inadequate controls for outliers and inattention to the unique growth experiences of the East Asian ‘Tigers’.

Levine and Zervos cite Belsley et al. directly in their 1996 working paper. In their published 1998 paper, their only reference on the methodology of controlling for outliers is the textbook by Greene (1993). But the discussion by Greene is itself derived from the work presented in Belsley et al., and is clearly referred to as such.

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