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# Financial openness and financial development: an analysis using indices

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can severely bias the coefficients of the estimated regression (Dreher [2006](#)). The need for an overall measure of financial openness as well as financial development calls for the use of index measures.

6. By using an index measure for financial openness we can represent the gradual process of financial integration rather than the degree of overall openness in the financial markets. As Chinn and Ito ([2008](#)) express, individual variables used to measure financial openness do not fully account for the complexity of the problem.

7. For more information please refer to Ullah and Giles ([1998](#)) and Sheret ([1984](#)).

8. We re-estimated our regressions using standardized individual variables in equally weighted and coefficient-of-variation-type indices. The results depict similarities to those from Table 1. Furthermore, using mean adjustment for the variables prior to including them in an index provides similar results.

9. For a more in-depth discussion of the principal component analysis please refer to Jackson ([1991](#)), Dunteman ([1989](#)) and Jolliffe ([2002](#)).

10. The principal component methodology of Bo and Woo ([2008](#)) is similar to that proposed by the United Nations Conference on Trade and Development (UNCTAD) for constructing the Trade and Development Index (UNCTAD [2005](#)). Bo and Woo ([2008](#), [2010](#)), Nanyang and Pan ([2002](#)) and Klein and Ouyang ([2002/2003](#)) provide different

approach to the Trade and Development Index (TDI) with

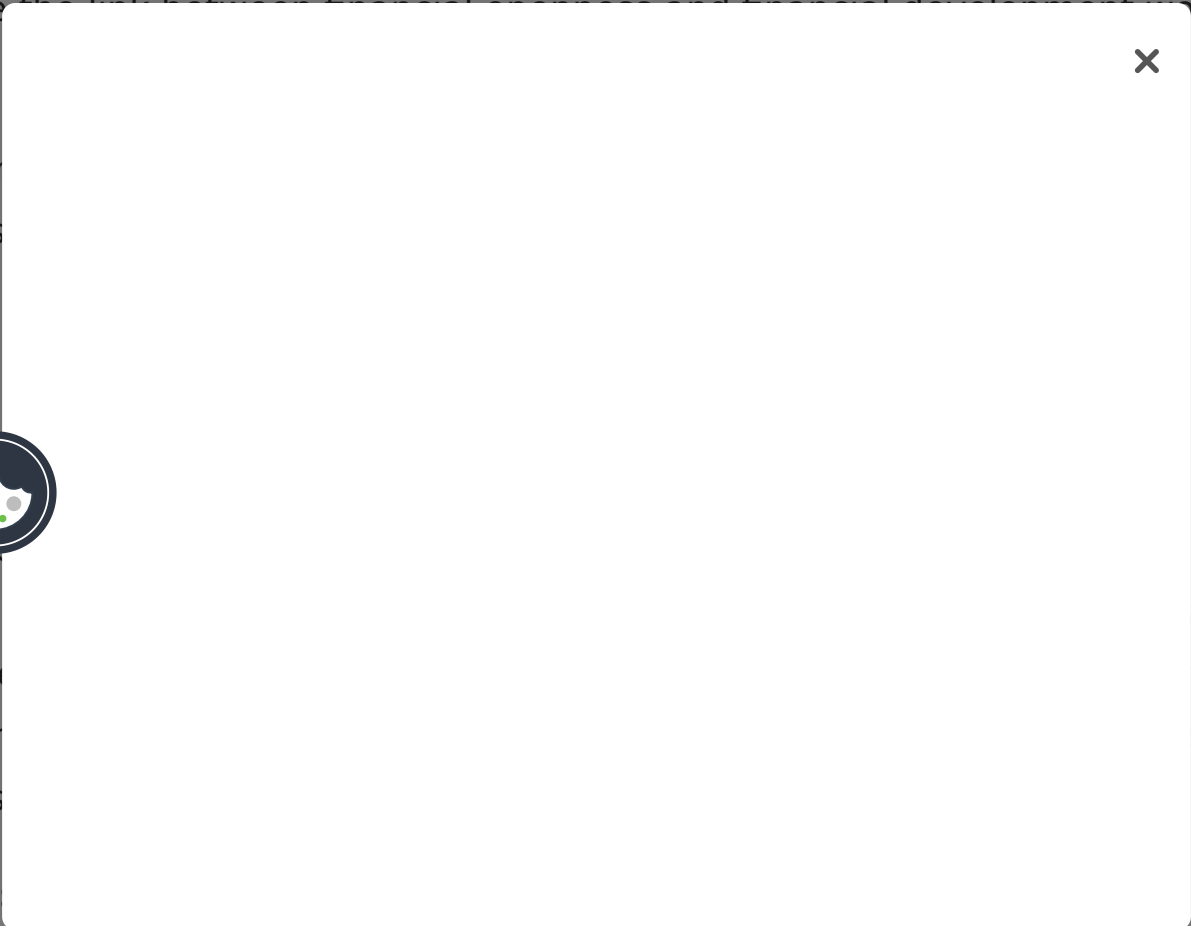
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14. To test for overidentifying restrictions we perform Sargan tests. We do not include the lag of the dependent variable as an instrument. We utilize the Arellano-Bond two-step estimator to avoid any panel-specific autocorrelation and to obtain better diagnostics results.
15. In the benchmark dynamic GMM estimations, all variables other than the lags of the dependent variable are treated as exogenous.
16. The missing observations for bond market development indicators could be the reason behind the non-significant results.
17. Similarly, the missing observations for the bond market development index could explain the negative coefficient for the financial openness index. The variation in the banking sector can directly affect the coefficient-of-variation-type banking sector development index, which depends on standard deviations. Hence, the negative coefficient for financial openness on banking sector development could be a result of the increased volatility that primarily affects the banking sector across countries.
18. We verify that the individual variables used in our indices are correlated. Our results show that we have positive correlations among individual variables.
19. The examination of the eigenvectors portrays that the use of individual variables to examine the link between financial openness and financial development could potentially
20. Hua the financial openness significant and
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22. Dep indicators, Baltagi, action term. This agr indices, which ar or financial openness
23. The openness index is 0.005, and evaluated at the maximum value is 0.006. Alternatively at the



minimum level of trade openness, the partial derivative of financial development index with respect to financial openness index is 0.48 and it is 0.489 at the maximum level of trade openness.

24. The long-run coefficient for financial openness using the banking sector development index is 0.643. The coefficients for financial openness using the bond and stock market development indices are 0.505 and 0.107 whereas for the overall financial development index, the coefficient is 0.715.

25. The results are available upon request.

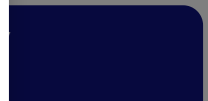
26. We rely on the World Bank's income group definition when splitting our data set into developing and advanced countries.

27. Comparing the results from our developing country sample with those of the advanced countries, financial openness is found to be positive and significant for most cases with the exception of the banking sector development for advanced countries.

28. The results are available upon request. Comparisons to the literature should be taken with caution for a variety of reasons. Both the models used in estimations, the choice of years and the countries widely differ across studies. The underlying research materials for this article can be accessed at <[https://docs.google.com/viewer?a=v&pid=partner-s&id=7GV4rYXVdICBtWFEkx6ZYk7YDpqrht3jwD\\_3NTM2OTkwZDU3N2R](https://docs.google.com/viewer?a=v&pid=partner-s&id=7GV4rYXVdICBtWFEkx6ZYk7YDpqrht3jwD_3NTM2OTkwZDU3N2R)



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