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The roles of stock market in the finance-growth nexus: time series cointegration and causality evidence from Taiwan

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Abstract

This article uses quarterly data from 1971 to 2007 to investigate the finance-growth nexus in Taiwan. We take into account the role of stock market into our examined model and revise the stock-flow problem when calculating financial related variables. The result supports the comovement phenomenon among financial intermediation, stock market and economic development based on the Johansen cointegration. The contribution of stock market capitalization to economic growth is substantially larger than that of banking in the long-term, highlighting the importance of stock market in Taiwan. Further, Granger causality based on Vector Error Correction Model (VECM) concludes the bi-directional causal relation between financial development and economic growth, suggesting the simultaneous interaction of supply-leading and demand-following phenomena addressed by Partick (1966).

Notes

[1] Securitization is a structured finance process of pooling and repacking group assets and transforming them into securities. These derivative securitization products are sold to investors over the world.

[2] To our knowledge, the using of quarterly data has never been explored in the context of finance-growth nexus.

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