Finance, institutions and economic development

ABSTRACT

Using data from 72 countries for the period 1978–2000, we find that financial development has larger effects on GDP per capita when the financial system is embedded within a sound institutional framework. Moreover, we find that financial development is most potent in middle-income countries, where its effects are particularly large when institutional quality is high. Importantly, we also find that in low-income countries the influence of financial development is at its weakest; in these countries, more finance without sound institutions may not succeed in delivering long-run economic benefits. Copyright © 2006 John Wiley & Sons, Ltd.

Keyword: Economic development; Financial development; Institutional quality; Pooled mean group estimation; Finance; Gross Domestic Product; institutional framework