



**UNIVERSITI PUTRA MALAYSIA**

***ROLE OF SOCIAL CAPITAL IN INTERNATIONAL FINANCIAL  
INTEGRATION, ECONOMIC GROWTH, AND FINANCIAL  
DEVELOPMENT***

**MARYAM SHAD**

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**ROLE OF SOCIAL CAPITAL IN INTERNATIONAL FINANCIAL  
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DEVELOPMENT**

**By**

**MARYAM SHAD**

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,  
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy**

**June 2018**

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## **DEDICATION**

To my parents whose their endless love and support throughout my life warmed my heart and helped me achieve my goals. Without you, I would not be able to finish this project.



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

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INTEGRATION, ECONOMIC GROWTH, AND FINANCIAL  
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**MARYAM SHAD**

**June 2018**

**Chairman: Saifuzzaman Bin Ibrahim, PhD**  
**Faculty: Economics and Management**

This study incorporates four components such as social trust, norms, network, and social structure to construct social capital series, to investigate the effect of social factors on variation of international financial integration (IFI), economic growth, and financial development from 1990-2014. This investigation is three essays. The first essay investigates the impact of social capital on IFI. The second essay examines the impact of human capital on social capital-growth nexus. The third essay investigates the influence of social capital on financial development. This thesis discusses each essay in a different chapter.

In the first essay, the impact of social capital on IFI is investigated. Many studies illustrate that the interest for increasing IFI is due to motivation to benefit from higher rate of return and find more opportunity for risk diversification. This reason induce policy makers to implement policies that can help improve financial market cooperation among countries. Despite the similarity in financial policy implemented by countries, the results are different in terms of the level of integration and risk adjustments. This essay try to investigate why some countries are more financially integrated than the other countries. The social capital is identified as one of the perquisites of IFI. Although the literature claims that social capital can facilitate IFI, the relationship between social capital and IFI is inconclusive. In order to examine the relationship between these two variables, this study employs generalized method of moment (GMM) panel as a regression technique by using the sample of 60 countries in the 1990-2014 periods. The results suggest that social capital can positively affect IFI. This is consistent with the view of literatures that suggest that IFI needs informal institution arrangements such as trustworthiness, controls of internal management, ethical infrastructure and the quality of collateral. Therefore, policymakers should weigh the cost of policies aimed at reinforcing social factors in addition to improve formal institution.

Second essay evaluates the role of human capital in mediating the effect of social capital on economic growth. Empirical studies show that the role of social capital in

economic growth is inconclusive. This linkage suggests that the impact of social capital on economic growth is perhaps conditional on the effect of other variables. The hypothesis is tested employing sample of 68 countries for the 1990-2014 period. Using GMM panel estimator, the results indicate that social capital has no direct effect on economic growth. However, social capital interaction with human capital (education) is found to be important for economic growth. This suggests that the marginal impact of social capital on growth is increasing in the level of education such that countries with higher level of education will benefit from lower transaction costs and hence higher productivity level.

In third essay, this study investigates the role of social capital in the financial development. Many countries try to develop their financial market and create more stable economic environment. Thus, people can borrow greater amounts at cheaper rates and can invest in a multitude of instruments and share risks with strangers from across the globe. The beneficiary impacts of financial development induce policy makers to investigate the precise initiatives that can promote financial development in countries. Therefore, numerous studies try to find the factors effecting financial development. Despite the attempt of countries to remove the obstacles to promote their financial development, the level of development in financial market is varied. Some studies suggest that differences in cross-country financial development can be related to other factors than formal institutions that is called informal institutions. This study aims to examine the link between social capital and financial development using GMM panel estimator for the sample of 60 countries from 1990 to 2014. Financial development incorporates contracts, warranties, and legal advices, which are categorized as transaction costs. Theoretically, social capital can reduce transaction costs which may enhance and facilitate movements of capital (Guiso et al., 2000). The findings suggest that social capital has positive impact on the financial development. The results support the idea that informal institutions are important in development of financial market. In another word, social factors can promote enforceability of formal contract that could promote financial development.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia  
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**PERANAN MODAL SOSIAL DALAM INTEGRASI KEWANGAN  
ANTARABANGSA, PERTUMBUHAN EKONOMI, DAN PEMBANGUNAN  
KEWANGAN**

Oleh

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Kajian ini menggabungkan empat komponen seperti kepercayaan sosial, norma, rangkaian, dan struktur sosial untuk membina siri modal sosial, untuk mengkaji kesan faktor sosial terhadap perubahan integrasi kewangan antarabangsa (IFI), pertumbuhan ekonomi dan pembangunan kewangan dari tahun 1990-2014. Siasatan ini terdiri daripada tiga esei. Esei pertama menyiasat impak modal sosial di IFI. Esei kedua meneliti impak modal insan pada perhubungan pertumbuhan modal sosial. Esei ketiga menyiasat pengaruh modal sosial dalam pembangunan kewangan. Tesis ini membincangkan setiap esei dalam bab yang berbeza.

Dalam esei pertama, impak modal sosial di IFI disiasat. Banyak kajian menggambarkan bahawa minat untuk meningkatkan IFI adalah disebabkan oleh motivasi untuk mendapat manfaat daripada kadar pulangan yang lebih tinggi dan mencari peluang untuk diversifikasi risiko. Sebab ini mendorong pembuat dasar melaksanakan dasar yang dapat membantu meningkatkan kerjasama pasaran kewangan di kalangan negara. Walaupun persamaan dalam melaksanakan dasar kewangan di negara-negara, keputusannya berbeza dari segi tahap integrasi dan pelarasan risiko. Esei ini cuba untuk menyiasat mengapa sesetengah negara lebih bersepadu daripada negara-negara lain. Modal sosial dikenal pasti sebagai salah satu perkuisit IFI. Walaupun kesusasteraan mendakwa bahawa modal sosial dapat memudahkan IFI, hubungan antara modal sosial dan IFI tidak dapat disimpulkan. Untuk mengkaji hubungan antara kedua-dua pembolehubah ini, kajian ini menggunakan panel momen umum (GMM) sebagai teknik regresi dengan menggunakan sampel 60 negara dalam tempoh 1990-2014. Keputusan yang dicadangkan modal sosial boleh memberi kesan positif kepada IFI. Ini konsisten dengan pandangan literatur yang mencadangkan bahawa IFI memerlukan pengaturan institusi yang tidak formal seperti amanah, kawalan pengurusan dalaman, infrastruktur etika dan kualiti cagaran. Oleh itu, penggubal dasar perlu menimbang

kos dasar yang bertujuan untuk mengukuhkan interaksi sosial sebagai tambahan untuk memperbaiki institusi rasmi.

Esei kedua menilai peranan modal insan dalam mengantarkan kesan modal sosial ke atas pertumbuhan ekonomi. Kajian empirikal menunjukkan bahawa peranan modal sosial dalam pertumbuhan ekonomi tidak dapat dipastikan. Hubungan ini menunjukkan bahawa kesan modal sosial ke atas pertumbuhan ekonomi mungkin bersyarat atas kesan pembolehubah lain. Hipotesis diuji menggunakan sampel 68 negara untuk tempoh 1990-2014. Menggunakan penganggar panel GMM, keputusan menunjukkan bahawa modal sosial tidak mempunyai kesan langsung terhadap pertumbuhan ekonomi. Walau bagaimanapun, interaksi dengan modal insan (pendidikan) didapati penting untuk pertumbuhan ekonomi. Ini menunjukkan bahawa impak marginal modal sosial terhadap pertumbuhan semakin meningkat di peringkat pendidikan supaya negara-negara dengan tahap pendidikan yang lebih tinggi akan mendapat manfaat daripada kos transaksi yang lebih rendah dan dengan itu tahap produktiviti yang lebih tinggi.

Dalam esei ketiga, kajian ini menyiasat peranan modal sosial dalam pembangunan kewangan. Banyak negara cuba membangunkan pasaran kewangan mereka dan mewujudkan persekitaran ekonomi yang lebih stabil. Oleh itu, orang boleh meminjam jumlah yang lebih besar pada kadar yang lebih murah dan boleh melabur dalam pelbagai instrumen dan berkongsi risiko dengan orang asing dari seluruh dunia. Kesan benefisiari pembangunan kewangan mendorong pembuat dasar untuk menyiasat inisiatif yang tepat yang dapat menggalakkan pembangunan kewangan di negara. Oleh itu, banyak kajian cuba mencari faktor-faktor yang mempengaruhi pembangunan kewangan. Walaupun percubaan negara untuk menghapuskan rintangan untuk mempromosikan pembangunan kewangan mereka, tahap pembangunan dalam pasaran kewangan berbeza-beza. Sesetengah kajian menunjukkan bahawa perbezaan dalam pembangunan kewangan di seluruh negara boleh dikaitkan dengan faktor-faktor lain daripada formal institusi yang dipanggil institusi tidak rasmi. Kajian ini bertujuan untuk mengkaji hubungan antara modal sosial dan pembangunan kewangan dengan menggunakan anggaran panel GMM untuk sampel 60 negara dari tahun 1990 hingga 2014. Perkembangan kewangan menggabungkan kontrak, jaminan, dan nasihat undang-undang, yang dikategorikan sebagai kos transaksi. Secara teoritis, modal sosial dapat mengurangkan kos urus niaga yang dapat meningkatkan dan memudahkan pergerakan modal (Guiso et al., 2000). Penemuan menunjukkan bahawa modal sosial mempunyai kesan positif terhadap pembangunan kewangan. Hasilnya menyokong idea bahawa institusi informal dapat mengubah institusi formal yang penting dalam pengembangan sistem keuangan. Dalam erti kata lain, faktor sosial dapat menggalakkan penguatkuasaan kontrak rasmi yang dapat menggalakkan sistem kewangan.



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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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## LIST OF ABBREVIATIONS

BTOT	Commercial-central bank
FD	Financial development index
FDBANK	Banking sector development index
FDEFF	Financial efficiency development index
FDSIZE	Financial size development index
FDSTOCK	Stock market development index
GMM	Generalized method of moments
IFI	International financial integration
LLY	Liquid liabilities
MCAP	Stock market capitalization
NIM	Net interest margin
OLS	Ordinary least square
OVC	Overhead costs
PC	Principal component
PCA	Principal component analysis
PRIVO	Private credit
RGDPC	Real GDP per capital
TOR	Turnover ratio
TVT	Total value traded

## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction to social capital

An important wisdom aspect of the social capital can be summarized by the common aphorism that it is not what you know, but who you know. It is a factual experience that for being a member of elite clubs requires internal linkages, similar to winning a close competition for jobs that usually take place for those with friends and contacts in high places. In fact, some of the most rewarding moments of our time are those shared with friends and neighbors, having meals or joining gatherings and communities.

The principle theorem of social capital believes that person's relationships is an asset and contributes to the individual and to the community. Moser (1996) and Narayan (1995) suggest that the communities which utilize various social networks and civic engagements can stand against poverty and vulnerability with a more stable and stronger position. Varshney (2008) also believes that stronger social network facilitate resolving conflicts.

As economists emphasize on the concept of human capital which is ones' raw hours of labors on a task plus all the skills and experiences that they bring to the task, political scientists consider the concept called social capital which covers ones human interaction plus the range and intensity of network of relationships.

Whereas the idea of human capital goes back to 1950's, the idea of social capital was unheard until 1990's. Recently, the concept of social capital emerged in economic studies expresses which has developed to be a solution helping societies to face problems and challenges of their development process (Pope, 2003). Many of the components of social capital rhetoric had already been bubbling slowly in a branch of economics called institutional economics, which emphasize the role of the glomerations, and networks and state holders. At the time, when hyper-globalization views institutions as impediment for market, therefore an alternative discourse emerges built around the centrality of formal and informal institutions and the conditions necessary to make them work including trust and so called social capital.

Social capital concept has been argued among researchers through various interpretations and definitions. During 1990's, many French and American sociologists attempt to inter the new expression of social interactions among individual in a group into the social analysis that can be operated through different channels in a society. The first one is transmission information channel, for instance job orientation, meet the candidates, and brainstorming, etc. The second channel is the norms encompassing reciprocating reactions through inter and intra social networks. The other channel is referred to collective actions. According to this fact, social capital is created through capital of society. Thus, in economic, social, and political studies various conceptual and intellectual principles create the meaning of

social capital, sometimes it interprets as social wealth or social income, and sometimes it consists of non-individual and non-private resources.

Some studies focus on social capital arguing that it is emerged as central idiom for a series of concepts such as social connection, social bond, community qualification, social networks, social inclusion, social support, social isolation, and social exclusion which are cited as components indicating existence or lack of social capital. However, there are controversial debates about their various characteristics, meanings, interpretations, and contributions to social capital.

The main supporter of social capital is Putnam (1995) who focuses on the membership in volunteer organization, since these are the networks to the building block to social capital. Putnam (2001) also discusses social capital is not only the emotional feelings but also it is the array of qualitative options which are the results of trust, corporation, and reciprocal behaviors. Thus, social capital is not restricted to special network or place; it exists in governmental networks, neighbors, churches, schools, sport clubs, civic communities, and even restaurants. As argues by Coleman (1990), social capital is linked to social ties which means it depends on people whom are related to an individual. However, Fukuyama (2001) proposes that social capital is a set of norms in social systems which enhances corporation and reduces interaction and communication costs. In addition, he argues social capital is created through religion, customs, and cultural norms, so it can be operated as informal norms leading people obligate to their formal commitments even when there is a lack of good quality institutional enforcement (Stulz and Williamson, 2003).

However, many more researchers like Bourdieu and Passeron (1990), Burt (1997), and Portes (2000) try to bring wider definitions of social capital concept while the debates around the dimensions of social capital is still not clear. Moreover, sociologists argue social capital is originated from all feature of social life.

## **1.2 Measuring social capital**

Social capital is linked to institutions in a society as the performance of institutions such as government and markets are determined by social capital through overcoming the problems due to collective actions (Woolcock and Narayan, 2000; Algan and Cahuc, 2010).

Despite the importance of understanding social capital, there is criticism that why the empirical studies is limited on this area. The reason is measuring social capital because of its intangible quality and complex nature is not easy (Bjørnskov, 2006a).

Since there are various definitions and interpretation around the idea of social capital, determining a single indicator to proxy social capital is not adequate. Some studies provide measures of individual based factors of social capital for example trust, social norms, and connections within the groups (Rossteutscher, 2008). However, some other studies measure social capital by using indicators such as home ownership (Gleaser and DiPasquale, 1998), carpooling behavior (Charles and Kline,

2002), number of business connections (Fafchamps and Minten, 2002), democracy (Paxton, 1999).

On the other hand, there are several studies try to construct social capital index using wide ranges of social capital dimensions. Among others, Putnam (2000) provides an index using important social indicators such as crime rate, child welfare, educational performance, and economic equality. Similarly, another social capital index is constructed measuring trust, group membership, and voting behavior by Alesina and La Ferrara (2000). In a work by Sabatini (2008), social capital index constructed using 200 variables include five core extents of social factors such as strong family bonds, weak formal connections, voluntary organizations, active political participation, and civic consciousness.

There are various methods of measuring social capital, some studies conduct surveys to compute social capital (Grootaert et al., 2004; Lee et al., 2011; Righi, 2013; Teilmann, 2012), while some others using different ways to calculate social capital indicators (Lee et al., 2011). This implies that conducting general framework for measuring a single indicator of social capital is not easy. Lee et al. (2011) construct a social capital index using 44 variables that categorize in four groups of social factor. These four dimensions represent trust in society, norms in society, networks in society, and structure of society. This study uses the idea of Lee et al. (2011) and develops a social capital series for 68 countries for every five years interval over 1990-2014.

### 1.3 Structure of social capital

Generally, the level of social cooperation is influenced by attitude and infrastructure (Lee et al., 2011). These two components divide into four main areas such as social trust, norms, networks, and social structure. Table 1.1 shows the variables that are used in this study to construct social capital series.

**Table 1.1: Description of the variables (social capital)**

Area	Variables	
Trust	Trust	
	Trust in financial market	
	Fairness	
	Confidence in social institutions	Church
		Labor
		Major companies
		Press
		TV
	Confidence in public institutions	Confidence in armed force
		Confidence in civil service
Social structure		Confidence Government
		Confidence in justice system
		Confidence in parliaments
		Confidence in police
		Confidence in political parties
	Democracy	
	Government effectiveness	
	Immigrant	

Norms	Income inequality Internet usage Political rights Urbanization Civic attitude	Accepting a bribe Avoiding a fare on public transport Cheating on tax Claiming government benefit falsely
	Public corruption Rule of law Olson group	Labor union Political parties Professional organization Art and music educational organization Religion Sport and recreation
Networks	Putnam group	

Source: Lee et al. (2011)

A brief explanation of four components constitute social capital index is as follow;

### 1.3.1 Social Trust

Trust is one of the most accepted concepts of social capital. Trust can improve corporation among individuals (Fukuyama, 2001). Trust is measured using the share of people who believe most of people are trustworthy and fair. However, trust in financial market is measured by ratio of domestic credit to GDP.

By increasing trustworthy behaviors in the society, people tend to have more confidence in public and social institutions. For example, in a trustworthy society, people can accept the decision of the government. And also in the less corrupted society, people can rely more on social institutions such as churches, schools, and media. This implies that there is a close association between generalized trust and confidence in public institutions (government, police, parliaments, and courts, etc.) and social institutions (church, schools, and TV etc.). Hence, public trust includes two measures confidence in public institutions and confidence in social institutions. Thus, social trust incorporates generalized trust and public trust.

### 1.3.2 Social Structure

Social structure is the structure of social relationships in a group that stands for culture and social conflict. The mutual character of relationships in society can be represented by culture. La Porta et al. (1997) and (1999) suggests that the level of social cooperation in homogenous societies is higher than the societies with heterogeneous population. Culture is measured using population of immigrant, urbanization, internet users per 100, political rights, and religious conviction.

The higher diversity in context of population associates with lower rank of trust, reciprocity behaviors, and associational activities. A society with higher ratio of international immigrant and higher level of urbanized population are tend to have lower social cooperation and trust. The privacy of citizens is important, however,



political rights reflect the power of government intervention. Thus, lower political rights lead to reduction in public trust. The other important cultural component is religion. Since, religion directly represents cultural background for social trust. Some studies find that hierarchical religions are negatively contributed to generalized trust as they tend to create vertical network (Bjørnskov, 2006b; Zak and Knack, 2001).

The other indicator shows the structure of social interactions is social conflict. Social conflict shows the ability of institutions to reduce diversity in a society. Some studies suggest that when there is division in the society and the institution that manage conflicts is weak, the impact of external shocks on economic is higher (Rodrik, 1999). The reason is that conflict in society leads to disturb adjustment of government policies. Social conflict is measured using income inequality, democracy, and government effectiveness. Social division is measured by income inequality. Democracy and government effectiveness are used to measure institutions of conflict management.

### **1.3.3 Social Norms**

Social norms refer to corporation publically. Social behavior and civic attitude are two dimensions of norms (Lee et al., 2011). Civic attitude represents norm of reciprocity, which means any actions in society will be returned back in the future. In this case, the cheating behavior will be reduced. Civic attitude is proportion of people agrees that following terms cannot be accepted and justified, (1) claiming government benefits falsely, (2) avoiding a fare on public transport, (3) accepting a bribe and (4) cheating on taxes.

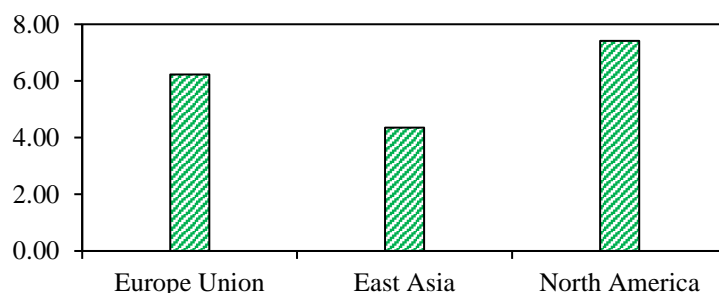
Rule of law and public corruption are indicators for social behavior. In a society, social behavior shows the level of commitment to rules and regulations. In addition, higher respect for formal and informal rules leads to higher level of trust and consequently more respectful behaviors in the society (Rothstein and Stolle, 2008).

Public corruption prevents social trust, since when a society is corrupted the norm is to ply without honesty. La Porta et al. (1997) suggest that public corruption and trust are negatively associated.

### **1.3.4 Social Networks**

Social network encompasses the membership in two types of voluntary associations; the Putnam group which is membership in a religion, art, music, educational organization, and sports and recreation groups. In addition, the other one is Olson group, in which the membership in labor union, political party, and professional organization are matter.

Figure 1.1 shows social capital index constructed by Lee et al. (2011) in European Union, East Asia, and North America. North America with (7.41)<sup>1</sup> earns higher and East Asia with (4.35) ranks lower score.

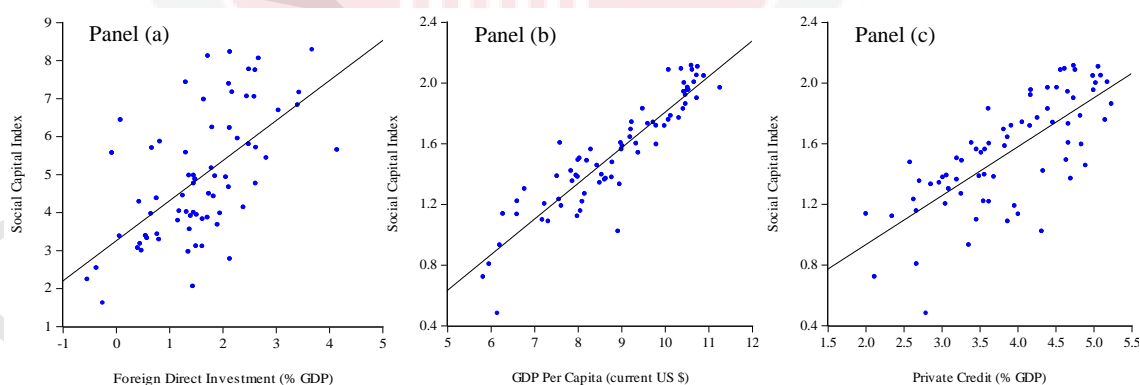


**Figure 1.1 Comparing social capital index between East Asia, European Union, and North America**

Source; Lee et al. (2011)

Higher level of social capital leads to higher trust, stronger reciprocal networks, powerful social norms, lower division in society, and better capability of institutions to manage conflict. Therefore, higher level of stability in a society is one of the direct results of higher level of social capital. People live happier, since higher social capital leads to higher degree of justice in the socio-political system.

Figure 1.2 a, b, and c indicates the correlation between social capital index which is extracted by Lee et al. (2011) and foreign direct investment (FDI), GDP per capita, and credits to private sectors in Panel (a), (b), and (c) respectively.



**Figure 1.2 Social capital index and economic variables**

Source; Lee et al. (2011) and World Development Indicator (WDI)

Figure 1.2a shows that social capital index links positively to FDI in a sample of developing and developed countries. Since in the society with higher social capital, for example generalized trust, the costs of transaction are lower and diversification of

<sup>1</sup> The index is scaled from 0 to 10.



risks are higher. Therefore, in that environment doing business is easier. In another word, countries that are rich in social capital can reform their economic structure easier than with lower stock of social capital. In trustworthy society, government can gather groups for overcoming recession easier. Thus, this will motivate investors to increase their investments in countries with strong social capital.

Figure 1.2b shows social capital positively linked with per capita GDP. As shown the upward slope illustrated the higher social capital tends to higher level per capita GDP. However, the only human factor inter the production process was human capital. Life in a society which skills and resources are combined in trustful, corporative, and committed based will also lead to optimize productivity. Therefore, GDP per capital will improve in a society which has more generalized trust, confidence in public and social institutions, better regulatory and obligations to rule, and lower corruptions in another word, higher level of social capital.

Figure 1.2c also presents social capital index is positively related to credit to private sectors as a proxy of development in banking sector. It is notable that higher rule of law and legal origin, lower corruption, better legal institutions, and higher democracy can promote banking sector development.

Knowing the existence of a positive linkage between social capital and economic indicators is not sufficient. Thus, understanding the mechanisms of how the social capital affecting economic in different sectors is crucial for investment decisions. In recent years, researchers attempt to find out the impact of various social dimension on economic indicators. Therefore, the importance of social factors in global economy is one of crucial issues in the future research areas.

#### **1.4 Motivation of the study**

Classical economists suggest land, labor, and physical capital as three main production factors. During 1960's, neoclassical economists' believed that education, train, and health of work force could be helpful to optimize productivity. In previous patterns, the only human factor that was involved in production process was human capital. It is based on quantity, skills, knowledge, and proficiency of labor force. Recent decades, sociologists, political scientists and economists show intensively interested in examining the new aspects of sociology combining with economics called "new economic-sociology". Thus, economic-sociology is the set of social norms and networks in template of economic patterns and considers as a capital. In economic view, social capital is a capital in an organization or a community. Thus, besides physical and human capital, social capital is also an important factor in economic models that could explain the economical phenomenon. In another word, social capital determines the stock of cultural and social components. In addition, it is a set of reciprocal interactions between individuals in the society.

Empirical studies show that social capital varies from the other types of capital like human capital. Social capital is not only individual acquisition but also it is originated from all members in a group or communities. Therefore, social capital is created just in groups or networks. There are theoretical and empirical literatures

focus on the important role of social factors in economic indicators. For example, Fukuyama (2001) suggests social capital can reduce transaction costs and ease doing business. Some other studies suggest that social capital can improve the efficiency and productivity in different sectors, not only through its effects on physical and human capital (Tabellini, 2010; Dincer and Uslander, 2010; Hall and Ahmad, 2013) but also it is directly linked to various economic indicators.

Recent decades, economists have focused on the importance of social interactions in economic variables and policies that countries can implement to maintain and improve it. Verifying this linkage can help understand the mechanism through which social capital contributes to economic variables. However, the complex role of social factors in explanation of variation of economic variables is still filled with controversial debates. For example, there is little agreement amongst researchers concerning the impact of various social factors on economic variables such as international financial integration, economic growth, and financial development. Despite a strong theoretical support that economic variables contribute to different social dimensions in a country. There is however, considerable empirical evidence support the positive impact of social factors on economic variables through its impact on lowering transaction costs, easing doing business, and increasing productivity.

This study contributes to the empirical literature by deepening our understanding the impact of social capital on three economic variables such as international financial integration, economic growth, and financial development.

### **1.5 Objective of the study**

This study consists three essays and try to explore three objectives as follow:

1. The objective of first essay is to investigate the impact of social capital on IFI across developed and developing countries.
2. The objective of second essay is to examine the impact of human capital on the relationship between social capital and economic growth.
3. The objective of third essay is to investigate the impact of social capital in the development of financial market.

### **1.7 Thesis Outline**

This study attempt to find out the importance of social capital in economic indicators using constructed social capital series. This investigation consists of three essays. In the first essay the role of social capital on international financial integration (IFI) is investigated. The second essay examines the impact of human capital on social capital-growth nexus. The third essay investigates the importance of social capital in development of financial market. The 3 essays are provided in chapter 3, 4, and 5.

In the first essay, it is discussed that social capital is one of the prerequisites of IFI. However, IFI determinants have not been investigated comprehensively. In this regard, although the literature claims that the social capital can facilitate the IFI, the relationship between social capital and IFI is not clear. In order to find this link, the study employs generalized method of moment (GMM) panel as a regression technique. This study examines whether social capital can promote IFI by using the sample of 60 countries from 1990 to 2014.

Second essay examines the mediating role of human capital on social capital-growth relationship. According to literatures, the effect of social capital on economic growth is perhaps conditional on other variables. In order to analyze this relationship, this study adopts GMM estimation technique, and use sample of 68 developed and developing countries<sup>2</sup> in 1990-2014.

Third essay evaluates the importance of social capital in development financial market. Theoretically, social capital can reduce transaction costs which may enhance and facilitate movements of capital (Guiso et al., 2000). This study uses GMM estimation technique, for the sample of 60 countries in 1990-2014 period of time.

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<sup>2</sup> Sample of countries is shown in Appendix A.

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