Universiti Teknologi MARA
Fakulti Pengurusan dan Perniagaan

FBM INSIGHTS

UNIVERSITI TEKNOLOGI MARA CAWANGAN KEDAH

Volume 1 2020 e-ISSN 2716-599X

UiTM di hatiku

eISSN 2716-599X
9 772716 599000

A REVIEW ON STOCK MARKET, BANK AND ECONOMIC GROWTH LITERATURE

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Abstract

This study gives a comprehensive review of the literature on the interaction between stock market, bank and economic growth. This is an area of research that has interested economists for a long time. Empirical studies show that well-functioning banks encourage and accelerate economic growth, but these studies rarely examine stock market development at the same time. Nevertheless, there is a contradictory view of the effect of the bank on economic growth, with some empirical work found no statistically significant relationship between banking sector development and economic growth. The study suggests that further development in the financial and non-financial sector is fundamental for better economic performance. No doubt there may some undesirable consequences which are harmful to the economy, but on averages its beneficial effects outweigh the consequences.

Keywords: Stock market, bank, real estate, economic growth.

Empirical Studies on Stock Market, Bank and Economic Growth

The relationship between stock market and economic growth has been the focus of an immense body of theoretical and empirical research since the seminal work Goldsmith (1969). Goldsmith (1969) was the first one who assessed the positive relationship between stock market and economic growth. At the same time there is also an increase in theoretical literature, suggesting that a well-functioning stock market can play an important role in the economic development process with the performance of financial functions. However, there are disagreements about the effect of the stock market on economic growth, with some theoretical works indicating that economic growth has actually been slowed by stock market developments. Besides, empirical studies on bank and economic growth reveals that financial functions provided by banks and other financial intermediaries are important in promoting economic growth. The theoretical and empirical studies strongly support the view that by improving information services of commercial banks, it can provide stable economic growth to the country. The recent literature also highlights the countries that adopt sound macroeconomic policies and establish a well-developed banking sector will experience sustainable higher economic growth. In broad-spectrum, empirical evidence from the developed and developing countries reveals that banking sector and other financial intermediaries are main force that can bring about high economic growth and predict the future economic growth. In general, all these empirical studies suggest that a well-developed financial system is growth-enhancing, and hence, consistent with the proposition that finance plays an important role in the process of economic growth or else "more finance led to more growth".[1]

In conclusions, the study gives a comprehensive review of the literature on the interaction between bank, stock market and economic growth. This is an area has interested among economists for a long time. Economists have tended to focus on the question whether the financial sector is sufficient to justify changes in economic growth and to what extent the financial sector effect economic growth. It seems clear from a number of empirical studies that financial development has significant effect economic growth to some extent.[2] It should be evident from this survey that there remains plenty of research to be done in this area.

Notes

1. See, for example, Law and Singh (2014); Pradhan, Arvin, Hall and Bahmani (2014a); Wu, Hou and Cheng (2010); Cole, Moshirian and Wu (2008); Tang (2005).
2. Those studies include King and Levine (1993b); Jayaratne and Strahan (1996); Levine and Zervos (1998); Levine, Loayza and Beck (2000); Xu (2000); Christopoulos and Tsionas (2004); Habibullah and Eng (2006); Amiruddin, Nor and Ismail (2007); Islam and Osman (2011); Bittencourt (2012); Campos, Karanasos and Tan (2012); Zhang, Wang and Wang (2012).

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