

What A Puzzle It Is! Does Financial Development Really Benefit Economic Growth?

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This study investigates the impacts of financial intermediaries and stock markets on economic growth for 49 countries from 1960 to 2004. Results show that the stock market exhibits significantly positive effects on economic growth. In contrast, financial intermediary displays significantly varying effects on economic growth. Financial intermediaries accelerate economic growth at low levels of financial intermediary development but mitigate economic growth at high levels. Over-heated financial development may impede and even impair real economic growth rather than accelerate it. Therefore, governments may need to formulate policies to alleviate over-heated financial development in order to ensure a sound financial environment and thus steady economic growth.

JEL Codes: O4, G2, G1