

Financial Development and Economic Growth: The Role of Stock Market in Japan

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This paper examines the long run relationship between the financial development, stock market development and economic growth in Japan. Johansen Co-integration Technique and Vector Error Correction Model are used to investigate the relationships. The results demonstrate that there is a long-run equilibrium relationship between the financial development, stock market development and economic growth in Japan and that financial development and stock market development causes economic growth, but there is no evidence of causality from economic growth to financial development or stock market development. Further analyses show that, although bank based financial development and stock market development leads economic growth, stock market development plays important role during the period 1974-2011 in Japan. Therefore, we conclude that stock market development is matter for the economic growth of Japan after 1974.

Keywords: Financial Development, Stock Market, Economic Growth, Japan

JEL: G10; G21; O40