

Abstract

The aim of this thesis is to examine the link between financial development and poverty alleviation. Unlike other studies for poverty-finance nexus, Bayesian Model Averaging is employed as it is an efficient tool when dealing with high model uncertainty that is common to these types of regression. Two types of poverty measures are used in the estimation, the relative one represented by income share held by the lowest 20% and the absolute one represented by poverty headcount per \$1.9 a day. The traditional measures of the depth of the banking sector and stock markets used in the literature are complemented with the financial indicators that account for efficiency, stability and access to finance from newly developed Global Financial Development Database by World Bank. The results suggest that the efficiency and stability of the banking sector contribute to absolute poverty alleviation. The results are robust to different model specifications and potential presence of endogeneity between the absolute poverty measure and financial development. Moreover, it is suggested that financial development disproportionately helps the rich.

JEL Classification

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Keywords

Bayesian Model Averaging, financial development, poverty

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