Abstract

This diploma thesis presents a meta-analysis of the accumulated empirical evidence on the relationship between financial development and economic growth. So far, hundreds of studies have been written on the role of financial systems in economic growth; however, their results are ambiguous. This is supported both by theory and empirical research. In order to shed some light on the underlying relationship, narrative literature surveys have been conducted. Nevertheless, the authors of these surveys select representative studies for inclusion subjectively and thus build their results on only a limited set of information. Moreover, due to the nature of their analyses, they cannot systematically assess which factors influence the heterogeneity in reported findings or whether the results are driven by the desire to produce only positive and statistically significant results. Thus, the main focus of our work lies in investigating what the role of financial development in economic growth is, adjusted for possible publication selection, and to systematically explain the heterogeneity behind reported results.

For this analysis a pool of available studies investigating the underlying relationship was collected. More specifically, our analysis takes into account data from 67 empirical studies with 1334 estimates of the effect of financial development on economic growth. In order to quantitatively analyze this dataset we apply standard meta-regression techniques, ranging from a test of funnel asymmetry and a test of the true effect adjusted for possible publication bias to multivariate meta-regression analysis in order to obtain more profound understanding of what determines the effect size estimates in primary studies.

Our results indicate that this area of research is not affected by publication selection and that there is an authentic link between financial development and economic growth. The evidence also suggests that heterogeneity in reported findings arises not only from research design of studies examining this effect but stems also from real factors. More specifically, the effect of financial development on economic growth varies across regions and time periods; using an estimation technique that does not address endogeneity (OLS) inflates the estimated effect size. Lastly, the structure of a country's financial sector is found to matter as stock market oriented systems tend to be more conductive to economic growth compared to bank oriented systems.