

Abstract

In this thesis, we examine the effect of social cohesion on economic growth. As a measure of social cohesion, we use Social Cohesion Index that combines several data sources into one comprehensible index covering 155 countries. We deal with model uncertainty and endogeneity of social cohesion at the same time by employing Bayesian model averaging together with two-stage least square estimation. Considering more than twenty regressors for fifty-three countries, we show that social cohesion has a positive effect on economic growth. We perform a prior sensitivity analysis to assess variability of social cohesion across different prior structures. As a robustness check, we include Rule of Law and Integration variables into our model and estimate it with Instrumental Variable Bayesian Model Averaging (IVBMA) methodology to cope with a considerable degree of instrument uncertainty. The results suggest that social cohesion is indeed a vital determinant of economic growth.