

# **Stock Market Development and Economic Growth**

## *Empirical Evidences from Developed and Emerging Markets*

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### **Abstract**

This study investigates whether the stock market development promotes the economic growth of emerging and developed economies. Further, it observes the direction of the causality focusing on Finance Led Growth Hypothesis and Growth Led Finance Hypothesis. Initially, Panel Unit Root Tests and Panel Co-integration Tests were employed to check the time series properties of the panel. Subsequently, I applied Dynamic panel data analysis based on Generalized Methods of Moment (GMM) for 20 countries over the period of 1990-2010. The results suggest that, stock market development promotes the economic growth of both emerging and developed markets confirming the Finance Led Growth Hypothesis. Further, study emphasizes that only the Finance Led Growth Hypothesis is valid for emerging markets while developed markets support bi-directional causality between stock market development and economic growth.

Keywords: Dynamic Panel Data Analysis, Stock Market Development, Finance Led Growth Hypothesis, Co-integration