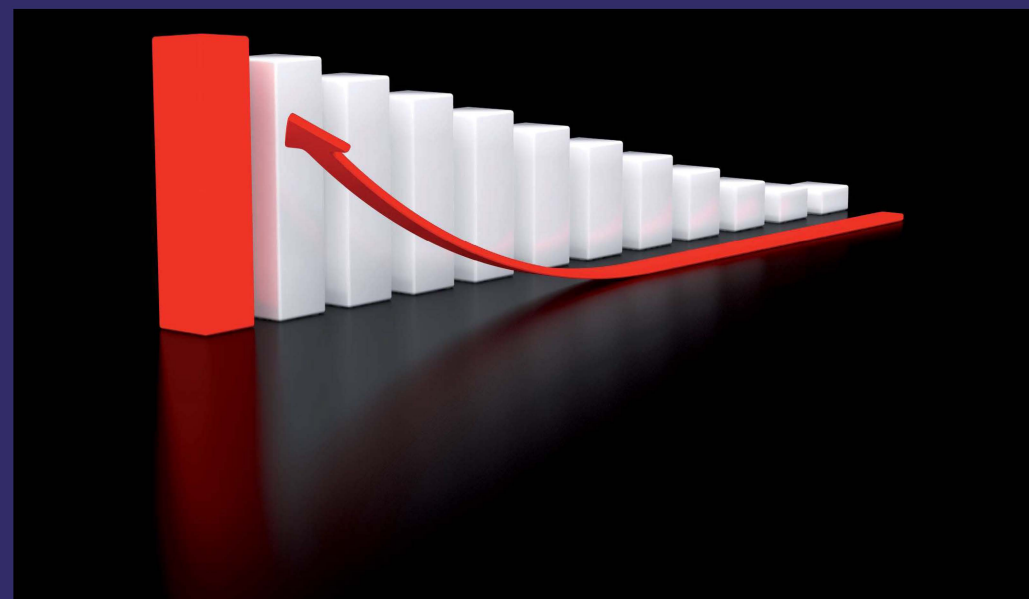


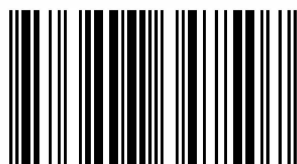
The reasons of economic growth have been always one of the most controversial issues in economic science. One of the probable effective factors on economic growth which has been declared about one century ago is financial development. Despite of this long history, there are different opinions among economists about the cause and effect relationship between financial development and economic growth. However, most economists argue that economic growth has been strongly influenced by financial sector. At the same time, evidences of different countries are also very different in this case. In the modern economic system, financial system operates like the heart and bank networks like the vessels for the economy. The efficiency of economic system is involved in the correct function of banking system. The results revealed that in the case of Iran, there is a two-way long-run causality relationship between multilateral index of financial development and economic growth. These analyses and findings should help shed some light on the literature of finance-growth nexus in developing countries, and should be especially useful to anyone who may be interested in financial economics.

Finance and Growth Causality in Iran



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Financial Development and Economic Growth in Iran

The Survey of the Trend of Financial Development Indicators and its Causality Relationship with Economic Growth in Iran



Author's Foreword

The reasons of economic growth have been always one of the most controversial issues in economic science. One of the probable effective factors on economic growth which has been declared about one century ago is financial development. Despite of this long history, there are different opinions among economists about the cause and effect relationship between financial development and economic growth. Indeed, a few economists reject the existence of causality relationship between financial development and economic growth. Others believe that economic growth is the cause of financial developments and state that financial sector follows the real sector. However, most economists argue that economic growth has been strongly influenced by financial sector. At the same time, evidences of different countries are also very different in this case.

From past up to now, researchers use various indicators for measuring financial development that some of them are faced with many critics. In the present research, it has been attempted to apply standard indicators which are accepted by the World Bank. These indicators are as follows the ratio of currency on hold to money stock (CM), the ratio of liquid liabilities to GDP (LLY), the ratio of credit allocated to private enterprises to total domestic credit (PRIVATE), credit allocated to private enterprises to GDP (PRIVY), ratio of commercial banks domestic assets to the banking system assets (BANK). As a matter of fact, non-oil factor price of GDP has been used for investigating the economic performance (at constant prices of 1376).

In the present research the causality relationship between financial development and economic growth in Iran during 1352 to 1384 has been studied. We use principle components analysis method to derive a multilateral index for financial development on the basis of the above indicators. Then by applying Dickey-Fuller unit root test, Johansen-Juselius Cointegration and Granger causality on the basis of Vector Auto-regression Approach, the existence of causality relationship in long term and short term has been investigated.

Therefore, the first chapter is studied the general scheme of the research. Chapter two critically surveys the relation between discusses the effects of financial development in the framework of an endogenous growth model, considers the theoretical principles of financial development and economic growth, domestic and foreign empirical research, explains the trend of financial development indicators in Iran during the studied period and the state of intermediaries in Iran. The third chapter introduces the methods of data analysis in the present research and the fourth chapter puts forward the results derived from these methods. Finally, by presenting conclusion about the causality relation between financial development and economic growth, chapter five attempts to offer suggestions for economic policymakers of country in order to develop financial system in Iran.

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