

Title: The role of the financial sector on economic growth: Theoretical and empirical literature reviews analysis

Hamad Omar Bakar

Universiti Sultan ZainalAbidin (UniSZA), Malaysia,

Abstract

This article reviews the literature on the effect of financial development on economic growth. The samples of literature from different time frames were taken into consideration to ensure the mixture of ideas and results. The results, implications, and discussion were presented at each category. It seems that the effect of financial development on economic growth is subject to the selection of time frames selected, a sample of countries, a list of variables, and a proxy. However, in most cases, it seems that the impact of the financial sector is more significant and positive to the developing countries compared to developed countries. Given the recent development of methodologies in terms of econometrics methods and the use of proxy such as the Financial index, it is important to apply in future research. This will help to determine the effect of the financial sector on economic growth in a more advanced way, rather than relies on past proxy and methodologies.

The financial sector attracts deposits and provide loans from surplus to deficit side. The overall impact of the financial sector in the economy is to ensure sustainable growth. It helps to mobilize savings and direct funds into production sectors. As a result, it facilitates the efficient allocation of resources and increases overall productivity. It also facilitates the delivery of products and services, management of risks, easier payments. In addition, it ensures the availability of different instruments, such as insurance packages, and information that facilitates trade activities. Financial development promotes growth via increasing capital accumulation together and improving marginal productivity consequential from it. Despite the fact that the conventional idea is the financial sector promotes economic growth, but the empirical literature has no consensus to date.

This article described the discussions from the number of literature into four categories so that to capture the

discussions on the different results provided from the different researches. The samples of literature from different time frames were taken into consideration to ensure the mixture of ideas and results. The paper categories the discussions into four main sections, first and second sections described by considering the Effect of the financial sector whether it is positive or negative. The third part explains the Effect of the financial sector on higher-income and lower-income countries. The Fourth part explains the transmission channels of the financial sector on economic growth. Further subsections to each part are explained within the articles.

Effect of Financial Development on Economic Growth is Positive

The Effect of the financial sector has said to be positive which implies that the financial sector promotes and is more significant on economic growth. These article has been categorized for the into two subsections, which conducted to the groups of countries (Panel and Cross-Sectional) and Individual countries (Panel and Time Series). Generally, it is argued that most of the studies focused on cross-section and panel data support the view that, finance influence growth even after taking into account growth covariates, biases, omitted variables as well as the unobserved country-specific effect

According to the level of income

Moreover, the existing evidence also demonstrates that this relation between finance and growth varies due to the level of income in some certain countries. It is explained that financial development is more significant and beneficial in developing economy countries. However, this assumption also is debatable due to the mixed results found in the literature. Despite this mixed result never the less many studies exhibited that less developing countries profited more on financial development compared with developed economies.

Speaker Biography:

Dr. James C. Ola, Slippery Rock University Slippery Rock,
USA, E-mail: esartell94@whitworth.edu

Abstract Citation:

Vascular Dementia Congress 2020, 16th world congress on
vascular dementia and neurodegenerative disorders;- May 18-
19,2020

[16th world congress on vascular dementia and
neurodegenerative disorders](#); - May 18, 2020.