

Equity Markets, Commercial Banks, Insurance Market, and Economic Growth: Supply-leading or Demand-Following? A Causality Test

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This study examines causality relationship between finance and growth based on a time series data compiled from Jordan over the period 1975-2003. Granger definition of causality is used to detect the direction of causation. After testing for the unit root and cointegration in the time series data, we specify the Vector Error Correction model to identify the source of causation in the form of either short or long run disequilibrium adjustment. The test shows that Jordanian commercial banks, stock and insurance markets promote economic growth in the long run. Whereas there is less evidence of causality relation occurs in the short run.

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Key words: Financial Development, economics growth, cointegration, causality, stock and insurance markets.

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