Preface

What makes the difference between developed and developing economy? Answer of the financial economists is straightforward – the former has a robust financial system which latter misses. This view implicitly assumes that a well-developed, market-oriented financial system can help to support private sector to ensure economic growth. Neo-classical economists forcefully support this view of "finance leads to economic growth strategy" and the philosophy is widely influencing policy decisions of many countries.

Following this theory, many less-developed economy initiated numerous policy measures to develop a market-oriented financial system to ensure rapid economic growth and to maximize social welfare. Thus, we feel that there is a need to analyze dispassionately implications of liberalization on the growth of the financial system to adjudge theory of "finance leads to economic growth strategy".

There are dissenting voices also. Critics of Neo-classical theory argue it is not financial system but innovation and other macroeconomic variables that cause economic growth. Financial system at best performs a passive role in economic development; it is simply an "inconsequential sideshow". So, all these theorists suggest that "do not overemphasize" the role of finance. Thus, we fell that there is a need to study the causal relationship between finance and growth to assess objectively how finance and economic growth are interconnected.

Theorists further argue, even if we accept that there is a "general consensus" among academics and policy makers that "finance leads to economic growth strategy" has some merit, yet we have to answer whether bank- or market-based system or a combination of both can deliver maximum benefit to the society. In a sense, what should the structure of an ideal financial system? Is there any best solution? To find answer of these questions, it is essential to study the role of bank and stock or a combination of these two in economic development. Present study further aims to answer this question.

Virtually I find interest in this topic when I was a Post-Graduate student and India started opening up its financial system. At that stage, truly I was skeptic. My immaturity, turmoil in global capital market, love for earlier regime, moulded by opinion in favour of "no change". In this sense, the study at an interval of a decade or so is a detour to reassess my earlier stand based on "little knowledge" and my research findings

astonishingly suggest at least for India simple reliance on financial sector to grow faster, ignoring others, may not help us to achieve our target.

At the bottom, the study is organized as follows: Chapter I contains the brief introduction of the topic which is followed by literature survey, research questions, methodology, variables, time period and data sources. Introduction of sample countries with emphasis on state of macroeconomic stability, policies initiated to invigorate capital markets, level of institutional development have been briefly discussed in Chapter II. An attempt has been made in Chapter III to measure the relative degree of stock markets development of the sample countries. The Chapter IV deals with the empirical analysis to examine the debate- is it market-based or institution-based financial system that can accelerate growth and efficiency of the economy and finally, Chapter V summarizes the study and highlights further area (s) of research.

****