

Finance-Growth Nexus in Cote D'Ivoire and Nigeria: Does the Proxy of Financial Development Matter?

Kizito Uyi Ehigiamusoe*, Hooi Hooi Lean and Ramez Abubakr Badeeb

Economics Program, School of Social Sciences, Universiti Sains Malaysia, 11800 USM, Pulau Pinang, Malaysia

ABSTRACT

This study examines the finance-growth nexus in Cote D'Ivoire and Nigeria using different proxies of measuring financial development to ascertain whether the finance-growth nexus is sensitive to financial development proxies. Findings reveal that a co-integration relationship exists between financial development and economic growth in both countries. While supply-leading hypothesis is supported in Cote D'Ivoire, the feedback hypothesis is supported in Nigeria. Further evidence indicates that the finance-growth nexus is sensitive to the proxies used to measure financial development. The implication of this study is that financial development promotes economic growth. Hence, countries should implement policies and reforms that favour the advancement of those proxies that accelerate growth in order to achieve sustainable economic growth.

Keywords: Economic growth, finance-growth nexus, financial development

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INTRODUCTION

Many empirical studies have examined the link between financial development and economic growth, but the debate on the causal relation is ongoing. Though

McKinnon (1973) and Shaw (1973) argued that financial development is important for economic growth, there are four hypotheses that are still being tested with varying methodologies and proxies in different countries. First, the supply-leading hypothesis opined that financial development promotes growth through its impact on productivity growth; resource mobilisation and allocation; reduction in information, transaction and enforcement costs; capital accumulation

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E-mail addresses:

ehiuyikizexcel@yahoo.com (Kizito Uyi Ehigiamusoe),

hooilean@usm.my (Hooi Hooi Lean),

r-badeeb@hotmail.com (Ramez Abubakr Badeeb)

* Corresponding author