

Report Type

End of Award Report

Full Name

Jisok Kang, Research Associate

Your E-Mail Address

j.kang@jbs.cam.ac.uk

Faculty/Department

Cambridge Judge Business School

Project Title

Does the Stock Market Benefit the Economy?

Project Start Date

Sep 01, 2015

Project End Date

Mar 15, 2017

Amount Awarded

NA

Project Abstract

An effectively functioning stock market allocates capital efficiently and provides sufficient funds to emerging, productive firms, which in turn breeds competition and innovation, ultimately fueling economic growth. In this paper, we show that concentrated stock markets dominated by a small number of large firms are functionally inefficient. Using data from 47 countries during 1989–2013, we find that capital is allocated inefficiently in countries with concentrated stock markets, which results in sluggish IPO activity, innovation, and economic growth.

Activities and Achievement

The paper explores the role of stock market functionality on economic growth. Surprisingly, this research question has not been researched extensively and we do not have enough evidence to support the positive role of stock market on economy though this topic has enormous implications for policymakers, particularly in developing economies, with plans to develop stock markets. In this paper, we first develop a new (inverse) proxy for stock market functionality because researchers so far have used stock market size as a proxy for stock market development and failed to establish a robust, causal relationship between stock market development and economic growth. Another innovation in this paper is to investigate the channels through which finance promotes growth, not just their causal relationship. We show that an important role of stock market is to provide necessary fund to new, small but innovative firms rather than well-established large firms to breed competition and innovation, which ultimately fuels economic growth. This paper is currently under review at the Journal of Financial Economics.

Dissemination

The paper has been presented at numerous international conferences such as the Joint Conference for Entrepreneurial and Behavioural Finance (March, 2017) and World Finance Conference (July, 2017). It is scheduled to be presented at Financial Management Association Annual Meeting in October, 2017. I submitted the paper to Journal of Financial Economics, a top-tier finance journal on March 16, 2017 and am waiting for the result of the first review. The findings suggested in the paper can provide a guide and lesson to financial market regulators and policymakers.

Outputs

Major Difficulties and Any Other Issues

Datastream, the major data source of the paper provides extensive dataset of stock market information around the world including developing countries. However, the data are noisy and needs to be cleaned. We had to talk quite a lot through phone and email to the representatives of the data source to do so.

Web Links

None. The paper was posted on Social Science Research Network but now is blocked from the public due to the request of my co-author during the review process of a journal.