



“THE IMPACT OF FINANCIAL MARKET DEVELOPMENTS ON GROWTH AND THE EFFECTIVENESS OF FISCAL POLICY”

Michael Koczyrkewycz
PhD Student
James Cook University

Dr. Taha Chaiechi
Primary Supervisor &
Advisor Mentor
James Cook
University

Dr. Rabiul Beg
Secondary Supervisor
James Cook
University

ACE 2018
10-13 July 2018
Canberra

OUTLINE

- Background
- A Review of the Literature
- Identified Gaps & Contributions
- Research Objectives
- Progress to Date: Stylised Facts, Data, Estimation Techniques
- Work in Progress

BACKGROUND



LITERATURE REVIEW

Classical Views



Post - Keynesian

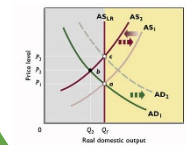


Financial Market Developments



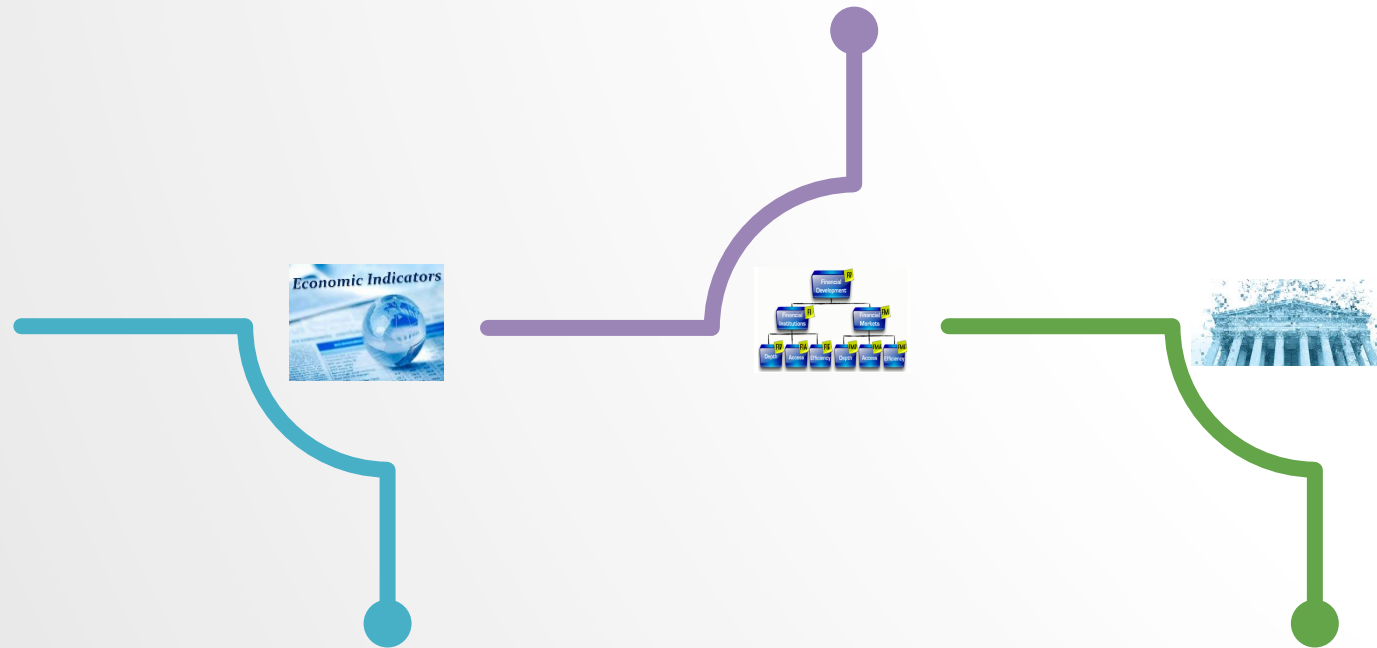
John
Maynard
Keynes

Exogenous
vs
Endogenous
(new growth
theory)



LITERATURE REVIEW

GAP 1
Financial
Development
Indicators



Identifying
the gaps

GAP 2
Fiscal Sector
& Shocks

Literature Review



Classical

Adam Smith
John Stuart Mill

David Ricardo
Karl Marx

WW2

John Maynard Keynes
Post-Keynesian Growth

Neoclassical Growth
Kaleckian-Post Keynesian

Modern
Growth

Exogenous & Endogenous

Financial
Markets

History of Financial
Markets

Bank-based vs Market-
based Systems



Identifying
the gaps

Endogenous Growth

- Financial intermediaries affect growth through various channels
- The transmission mechanism has not been empirically tested

Post-Keynesian Growth Theories

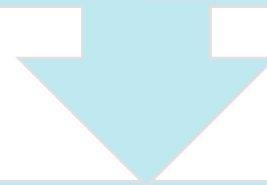
- Emphasis on income distribution & the real side of the economy
- Little attention to the financial side



Expand Post-Keynesian models to include financial variables

Chaiechi (2012)

How FDs affect different sources of economic growth



Unique contribution

Incorporation of a financial sector development indicator

Monetisation ratio, domestic credit & stock market capitalisation



Added to

Accumulation, savings & productivity growth variables

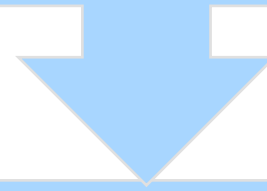
GAP 1
Financial
Development
Indicators



Prescribed financial indicators do not consider the complex multidimensional nature of FD

Sviryzenda (2016)

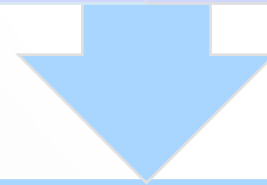
FD Index Pyramid



Global Financial Development Database

105 distinct indicators
(Annual)

Depth, access & efficiency



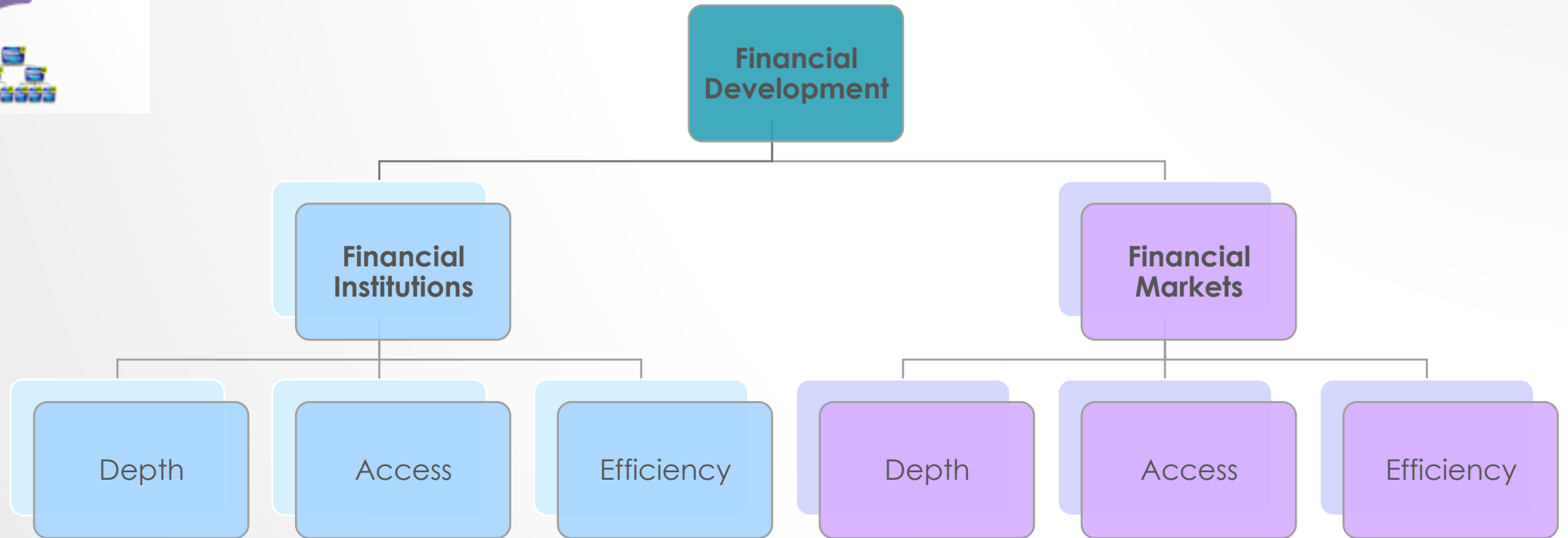
Unique contribution

Addition to the 3 commonly used measures of FD

**GAP 1
Financial
Development
Indicators**



Global Financial Development Database (GFDD)
(Annual)





Incorporation of the fiscal sector

Taxation and government
expenditure

Accumulation, savings
& productivity growth
variables



Effectiveness of fiscal policy in diluting shocks

Impulse response
functions

Through FD indicators

GAP 1 Financial Development Indicators



$$\text{Accumulation} \quad g_t^i \equiv a_0 + a_1 z_{t-1} + a_2 \pi_{t-1} + a_3 r_t + a_4 g x_{t-1} + a_4 fd + a_5 fp \quad (1)$$

$$\text{Savings} \quad g_t^s = \beta_1 z_t + \beta_2 \pi_t + \beta_3 fd + \beta_4 fp \quad (2)$$

$$\text{Income Distribution} \quad \pi_t = \gamma_0 + \gamma_1 z_t + \gamma_2 u_t + \gamma_3 g x_t \quad (3)$$

$$\text{Productivity Growth} \quad g x_t = T_0 + T_1 g_t^i + T_2 z_t + T_3 fd + T_4 fp \quad (4)$$

$$\text{Net Export} \quad n x_t = -\delta_1 z_t + \delta_2 \pi_t \quad (5)$$

$$\text{Employment} \quad u_t = n - e_1 g_t^i - e_2 \Delta z_t - e_3 \pi_t + e_4 u_{t-1} + e_5 g x_t \quad (6)$$

$$\text{Market Equilibrium} \quad g_t^i = g_t^{\text{total}} = g_t^s - n x \quad (7)$$

g_t^i : Normalised investment

g_t^s : Normalised domestic savings

z : Capacity utilisation (capital productivity)

π : Profit share

$n x$: Net export (normalized by GDP)

u : Unemployment rate

$g x$: Productivity growth

fd : Indicators of financial development

fp : Fiscal Policy



GAP 2 Fiscal Sector & Shocks

RESEARCH OBJECTIVES

Objective 1

Present an economic profile

Objective 2

Examine dynamic relationships between financial, real & fiscal sectors

Objective 3

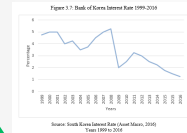
Diagnosing the sources of financial market shocks

Objective 4

Examine the effectiveness of fiscal policy: presumption of coordination failure within the economy

PROGRESS TO DATE

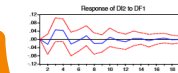
Literature Review



Stylised Facts Objective 1

Methodology

$$\gamma_1 = a_1 \gamma_0 + a_2 \gamma_1,$$
$$\gamma_0 = a_1 \gamma_{s-1} + a_2 \gamma_{2-2}.$$

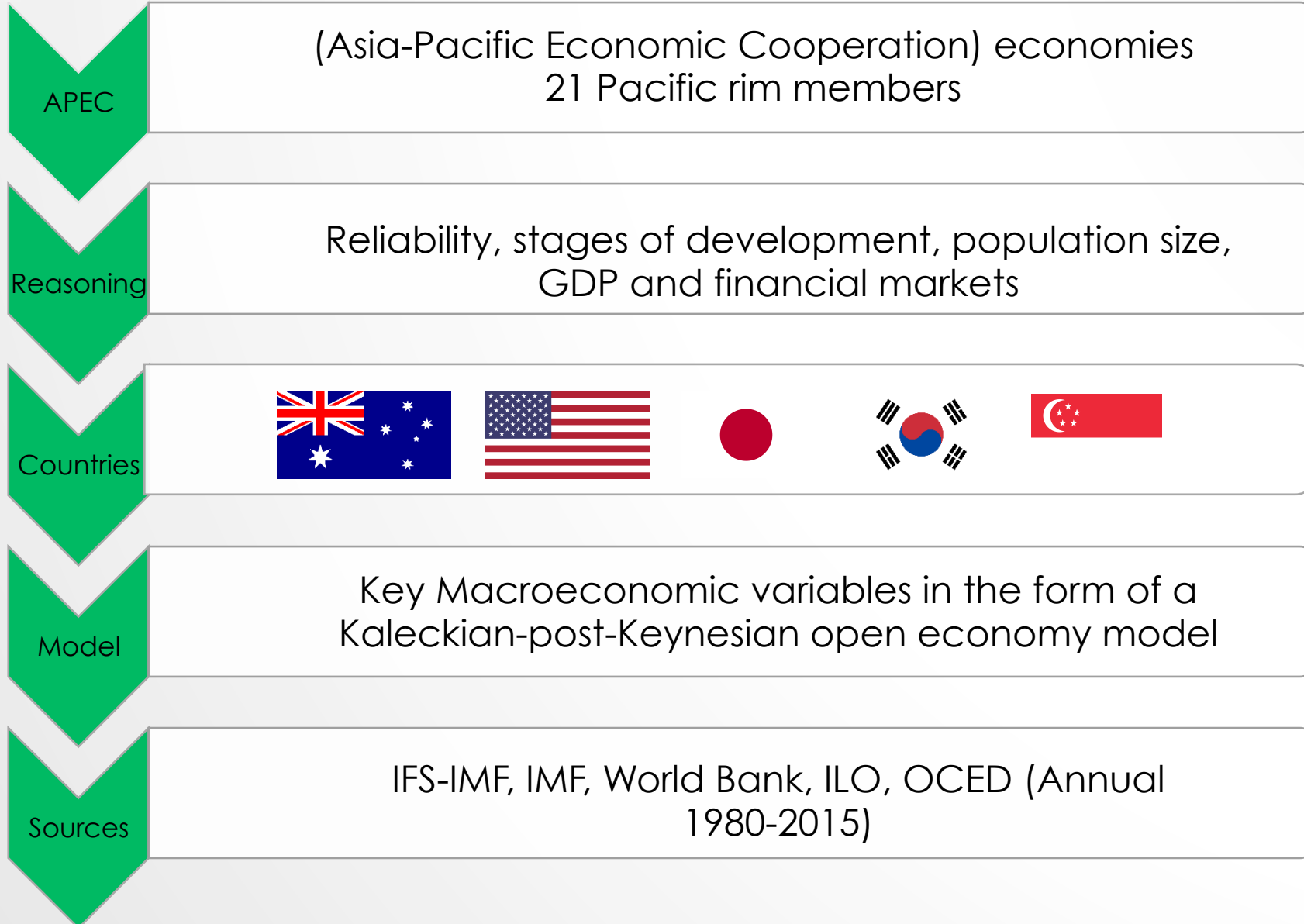


Results & Discussion Objective 2, 3, 4

Conclusion & Recommendations

Given the nature of the indicators of financial development variables employed in this study, the results also suggest that financial development shocks, particularly stock market capitalization is strongly responsible for stimulation of investment, saving and productivity growth in Hong Kong. Hong Kong's financial sector has transformed during the last decades, and its international financial centre status consolidated. As the Hong Kong financial system remains almost dominated by banks, in this respect, as a result of the Post-Keynesian conclusions that we have already put forward, institutional and banking arrangements significantly facilitate financial market development and enhance economic growth.

DATA – COUNTRY/VARIABLES



ESTIMATION TECHNIQUES

Preliminary
Analysis

Unit roots, DF, ADF, PP, KPSS, Johansen
Cointegration, Granger Causality

Mutli-equation
time-series

SVAR, Impulse Response, Variance
Decomposition, VEC

DATA – FINANCIAL INDICATORS

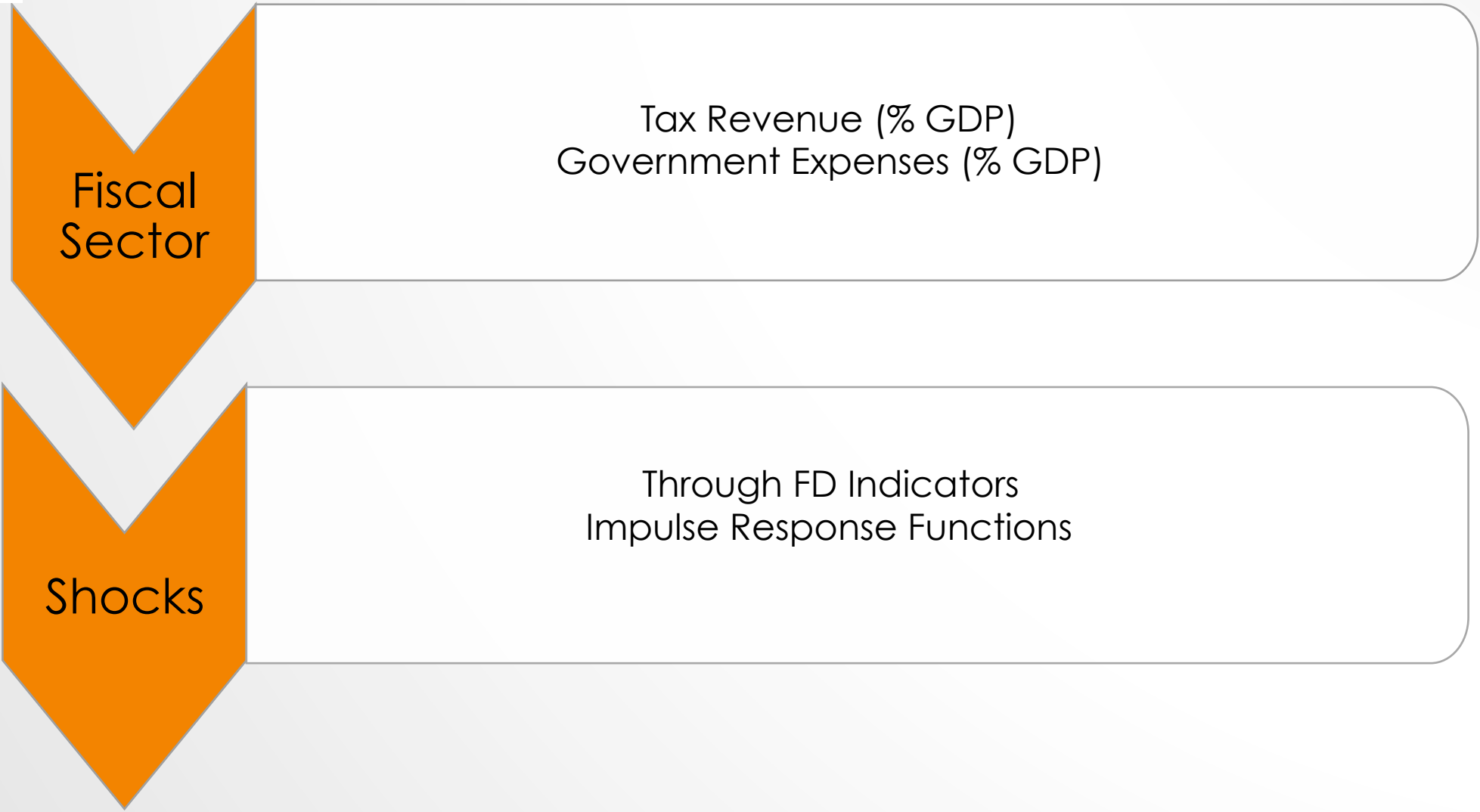
Depth

Outstanding international private debt securities to GDP (%)
Outstanding international public debt securities to GDP (%)
Outstanding total international debt securities / GDP (%)

Efficiency

Stock market turnover ratio (%)
Credit to government and state-owned enterprises to GDP (%)

DATA -FISCAL SECTOR & SHOCKS



RESULTS & DISCUSSION

Full-open macro-economic model



Collected data and defined the variables



Identified the appropriate methods of testing



WORK IN PROGRESS

Results & Discussion

Objective 2, 3, 4

Preliminary
analysis & time-
series analysis



Empirical
determination
of economic
laws



Results &
Discussion



Conclusions &
Recommendations



THANK YOU

Excited

Output

Original
works

Economic
Theory

Unique

PhD
Topic

REFERENCES

Chaiechi, T. (2012). “Financial development shocks and contemporaneous feedback effect on key macroeconomic indications: A Post Keynesian time series analysis”. Elsevier. *Economic Modelling* 29 (2012) 487 – 501.

Svirydzenda, K. (2016) “Introducing a New Broad-Based Index of Financial Development”. IMF Working Paper. WP16/15