Workshop on Debt, Finance and Emerging Issues in Financial Integration

Financing for Development Office (FFD), DESA
8 and 9 April 2008

Stock Markets in Low Income Countries

Ajit Singh

Stock Markets in Low Income Countries

Ajit Singh

University of Cambridge, England

Preliminary and incomplete draft paper presented at Workshop on Debt, Finance and Emerging Issues in Financial Integration, 8-9 April 2008, United Nations Headquarters, New York.

Not to be quoted

F:\UN_DESA_8-9April2008\UN DESA Stock Mkts 0 draft Aprl 08.doc

causing the US decline. A blue ribbon commi

The paper is organised as follows. Section II outlines differing views on the role of the stock market particularly in encouraging invention and innovation in developed countries and its potential role in developing countries. Section III provides some illustrative statistical information on stock markets in countries at differing levels of development and per capita income. Section IV considers the question of corporate finance and how developing country corporations, which are listed on domestic stock markets, finance their growth. Comparisons are made between developed and developing countries regarding their corporate financing patterns, and the implications of the similarities and differences for economic policy as well as for economic theory will be explored. Section V considers the question of the market for corporate control and its implications for corporate governance. Section VI reviews the new literature on law, finance and development and outlines important hypotheses concerning legal origin and how these affect stock market development. Section VII analyses the question of regulation of the stock market in relation to developing countries. Section VIII provides a brief conclusion.

II. The Broad Debate about the Stock market: Analytical and Policy Issues

Notwithstanding Keynes, a surprisingly large constituency favours the establishment of the stock markets to promote economi

A second important IFI argument in favour of the stock market is that it represents "natural progression" in the development of a country's economic institutions as a country reaches a higher stage of economic development.

Interestingly, the institution of the stock market is also favoured by the communist party in China, the former Chinese leader Zhao Zhi Yang providing a spirited defence of this institution particularly for a developing communist country. Arguing in Marxist terminology, Zhao suggested that during the 'primary state of socialism', and the 'commodity production' stages of the development of a socialist economy, it is necessary to use various market forms, including the stock market. Zhao argued that such institutions should not simply be regarded as a preserve of capitalism: socialism should also take advantage of them, whilst minimizing their harmful effects.[2] He noted that a socialist country is better able to preempt the latter through regulation.

Helmut Reisen (1994), an OECD economist, provided another rationale for third world stock markets. He argued that the development of such markets would be pareto-optimal since it provided the possibility for older first world citizens to use their pension funds and other savings resources to invest in younger more profitable third world countries and thereby earning their investors a higher rate of return than otherwise. At the same time, third world countries would obtain the critical foreign exchange needed for economic development. Similar approval of the stock market was expressed by a World Institute for

This had enabled it to recover from low productivity growth of the period 1980 to 1995, achieve higher productivity growth between 1995 and 2005. This transformation, according to Summers, was brought about by the take-over mechanism on the stock market, which led to a huge structural reallocation of resources in the US economy leading to higher productivity growth. Similarly, Summers suggested that through the system of stock options the US stock market is better able to align the interests of managers with those of shareholders. Thirdly, the US stock market promotes technological progress through the venture capital route. Through the latter, it ensures that the US is able to provide much greater incentives for technological innovation than the institutional arrangements in other countries. One reason for the higher pay-off invent

features of the stock market, such as share-price bubbles or prolonged depressed levels of prices, can be ameliorated if not eliminated by public regulation.

III. Stock markets in small poor developing economies

My remit is to discuss a) whether poor countries, particularly in Africa, will benefit from establishing stock markets, and b) whether low- and middle-income countries in general will gain from encouraging the expansion of these markets. Before tackling these questions (some of which have been elaborated in the sections above), a few statistics on the dimensions of African stock markets in particular are in order.

Many countries in sub-Saharan Africa have created stock markets in the last fifteen years. Prior to 1989 there were just five stock markets in sub-Saharan Africa and three in North Africa. Today there are nineteen in Africa. Apart from South Africa, most African stock markets are small, with few listed companies, low market capitalisation and low turnover of shares. The South African stock market is approximately ten times as large as the rest of the Sub-Saharan African stock markets combined. Indeed it is one of the largest among emerging economies. Tables 1-3 provide data on African stock markets and for comparative purposes on other selected emerging markets, as well as two advanced countries, namely the UK and Italy. The tables

provincial stock exchanges situated in cities like Birmingham and Manchester. Economic historians tell us that they performed very useful functions and worked on the basis of trust rather than formal legal rules. However, none of these provincial exchanges function today**.** The economies of scale enjoyed by the London stock exchange in its operations have overwhelmed all small stock exchanges. For example, at the beginning of the twentieth century in England there were nineteen provincial stock exchanges situated in cities like Birmingham and Manchester. Economic historians tell us that they performed very useful functions and worked on the basis of trust rather than formal legal rules. The economies of scale enjoyed by the London stock exchange in its operations have overwhelmed all small stock exchanges. It is also unlikely that small African national exchanges could survive by joining together regional stock exchanges, largely due to the fact that there are big differences between countries with respect to law, custom, working culture and accounting standards. A merger of the exchanges may prove to be unviable and not cost effective. Moreover, it is unlikely that small African national exchanges could survive by joining together regional stock exchanges, largely due to the fact that there are big differences between countries with respect to law, custom, working culture and accounting standards. A merger of the exchanges may prove to be unviable and not cost effective.

Singh (1999) suggested a different argument for not encouraging the establishment of stock markets in African countries at their current stage of the development, suggesting that they should focus on reforming and improving the banking system to provide for the capital requirements of local firms. The banking system is more likely to meet the needs of ordinary savers and investors than are stock markets. Furthermore, a sound banking system is generally regarded by development economists as a pre-requisite for stock market development. Does the experience of the last ten years suggest a revision of these policy proposals?

IV Stock markets and economic development: the case of larger developing economies with well-established stock markets

An important question for this paper is whether and how the encouragement of stock markets in the average higher-income developing country would assist their industrialisation and economic development. The relationship beween stock markets

literature suggests that, in the face of the highly uncertain future, share prices are likely to be influenced by the so-called “noise traders”, and by whims, fads and contagion. For similar reasons of psychology, investors may attribute much greater weight to near-term price forecasts rather than historical long-term performance.

Until recently, the empirical literature has been dominated by the so-called ‘efficient markets hypothesis’ (EMH), which argues that real world share prices are efficient in the sense that they incorporate all available information (Fama, 1970). In the 1970s, evidence in favour of this hypothesis was thought to be overwhelming, with enthusiasts regarding it as the best-documented hypothesis throughout the social sciences (Jensen, 1978). In the 1980s and 1990s, with (a) the 1987 US stock market crash, (b) the meltdown in the Asian stock markets in the 1990s and (c) the recent bursting of the technology stocks bubble, the EMH has suffered fundamental setbacks. In this context, a useful distinction can be made between two kinds of efficiency of stock markets, (a) the information arbitrage efficiency that ensures that all information concerning a firm’s shares immediately percolates to all stock market participants, ensuring that no participant can make a profit on such public information; (b) fundamental valuation efficiency, that is, share prices accurately reflect a firm’s fundamentals, namely the long-term expected profitability (Tobin, 1984). The growing consensus view is that, in these terms, stock markets may at best be regarded as being efficient in the sense of (a) but far from being efficient in the economically more important sense (b). (See the references in the previous paragraph.)

The take-over mechanism

Just as there are good theoretical reasons why share prices in the real world may not be efficient in the fundamental valuation sense, financial economists and industrial organization economists have identified a number of reasons why the take-over mechanism may not actually work in the way envisaged in the orthodox analysis. The reasons include (a) imperfections in the market for corporate control, the most important of which is that whereas large firms can take over small ones, the reverse is rarely the case (see further, below); (b) the huge transactions costs of take-overs, particularly when large firms are involved and bids are contested; (c) the free-rider problem identified by Grossman and Hart (1980). An obvious additional reason is that the acquirers themselves may be empire builders rather than shareholder who maximize their welfare (Singh, 1992).

The empirical evidence on these issues indicates that, although there is a very active market for corporate control in the ma

with mergers, the lack of such an increase suggests a micro-economic inefficiency in resource utilization, certainly not an improvement.

A related set of financial studies – the so-called 'events studies' – suggest, however, that in US take-overs the acquiring firms suffer a sizeable decline in share prices in the period of six months to three years following the merger. The gainers are mainly the acquired firms whose share prices may rise by up to 20 per cent on average (Jensen, 1988). This poses serious incentive problems as potential acquiring firms stand to lose rather than to gain. Equally importantly, in order to classify these gains to the shareholders of acquired firms as being social gains, the analysis has to assume that share prices are always efficient in the fundamental valuation sense, which, as indicated above, is far from being the case. The rise in the share price of the acquired firm may reflect simply the price for control which empire builders are willing to pay even to the detriment of their own shareholders.

Further, *a priori* analysis as well as evidence indicates that in practice the imperfections of the pricing and the take-over processes together may lead to 'short-termism' on the part of corporate managements. This is reflected in the fact that the latter are obliged to fulfil the market analysts' short-term (quarterly or six-monthly) expectations of the firms' earnings per share. Evidence suggests that if such short-term targets are not met, there is a fall in share prices making the firm *cetris paribus* vulnerable to take-over. In a closely related but more general sense, the dominance of stock markets can also result in the unhealthy ascendancy of finance over production, and that of financial engineering (through the take-over process) over the normal long-term entrepreneurial tasks of introducing technical change, reducing costs and

The reasons why Table 4 figures are so surprising is conveyed in part by the data reported in Table 5 for advanced countries (ACs). It is not surprising in itself that there should be differences between AC and DC corporations in relation to how they would meet their financing requirements. However, what is observed is totally opposite to what economic analysis would predict to be the nature of the differences between the two groups. However, it may be noted that the pattern of finance reported in Table 5 for AC corporations themselves is fully compatible with the so called 'pecking order' theory of finance.

Singh (2003a) sums up his theoretical analysis of expected patterns of finance for developing and mature countries as follows: that if there are good reasons to expect the pecking order pattern of finance for AC firms, there are even better reasons for doing so for DC firms.

How does one explain these theoretically anomalous results in Tables 4 and 5? The first point here is that the two tables are using different sources of data and answering different questions. Singh's 1995 study was based on the data for the 1980s. For the 1990s there is now more comprehensive data available which raises the issue whether these anomalous results for the 1980s continue into the 1990s.

Table 6 provides information on this subject for firms in 22 developing and 22 advanced countries for the period 1995-2000. This is a more comprehensive dataset that that which was availabl

subject to greater influence of the stock market than the latter. There are in principle three channels through which corporate governance may be affected by the stock market: a) the regulatory framework of the stock market itself concerning standards for corporate accounts, transparency, etc., b) the pricing process on the stock market and c) the take-over process. Nevertheless, because of the existence of a highly active market for corporate control in the U.S. and the U.K. even firms which shun the stock market become subject to take-over discipline.

The market for corporate control is thought to be the evolutionary endpoint of stock market development. The ability of an outside group of investors to acquire a corporation, often through a hostile bid, is the hallmark of the stock market dominated US and U.K. financial systems. As noted above, the textbook interpretation of takeovers is that they improve efficiency by transferring corporate assets to those who can manage them more productively. Consequently, more effective managers emerge who can raise the firm's profitability and share price. Even if current managers are not replaced, an active market for corporate control presents a credible threat that inefficient managers will be replaced and thus ensures that the incumbent management actively seeks to maximize shareholder value and thereby raises corporate performance. Even if quoted firms were not directly susceptible to changes in share prices because they finance themselves almost exclusively from internal finance (as the pecking order theory implies and empirical evidence on developed country corporations confirms), the market for corporate control can still discipline managers. Furthermore, even if all firms are on the efficiency frontier, the amalgamation of some through the act of takeovers may lead to a better social allocation of resources via synergy.

However, a critical school has developed a multifaceted critique that has increasingly questioned the above textbook version of the market for corporate control. First, a number of analysts in the critical school have pointed out that in the real world the market for corporate control, even in advanced economies, has an inherent flaw in its operation: it is far easier for a large firm to take over a small one than the other way around (Singh, 1971, 1975, 1992). In principle, it is possible that a small efficient firm may take over a larger and less efficient company (and to a degree this occurred

in the US takeover wave of the 1980s through "junk bonds"), its incidence is very small (Hughes, 1989).

This consideration is particularly important for developing countries like India where there are large, potentially predatory conglomerate groups (Singh, 1995). These could take over smaller, more efficient firms and thereby reduce potential competition to the detriment of the real economy. In a takeover battle it is the absolute firepower (absolute size) that counts rather than the relative efficiency. Therefore, the development of an active market for corporate control may encourage managers to "empire-build" not only to increase their monopoly power but also to progressively shield themselves from takeover by becoming larger (see further Singh, 1975, 1992).

Secondly, the efficient operation of the takeover mechanism requires that enormous amounts of information are widely available. Specifically, market participants require information on the profitability of corporations under their existing management and what its prospective profitability would be under an alternative management if it were taken over. It has been noted that such information is not easily available even in advanced countries and this informational deficit is likely to be greater in developing countries.

Thirdly, takeovers are a very expensive way of changing management (Peacock and Bannock, 1991). There are huge transactions costs associated with takeovers in countries like the US and UK which hinder the efficiency of the takeover mechanism. Given the lower income levels in the developing countries, these costs are likely to be proportionally heavier in these countries. It should also be borne in mind that highly successful countries such as Japan, Germany and France have not had an active market for corporate control and have thus avoided these costs, while still maintaining systems for disciplining managers. Furthermore, there is no evidence that corporate governance necessarily improves after takeovers. This is for the simple reason that all takeovers are not disciplinary; in many of them the acquiring firm is motivated by empire-building considerations or even by asset-stripping..

Fourthly, there is theoretical work (see for example Stein, 1989) which suggests that even if managers wish to maximise shareholder wealth, it would pay them to be

myopic in a world of takeovers and si

collapse in currency and equity values of course, ultimately may encourage "fire-sale-type FDI" in the form of takeovers, (suggesting that the expected rate of return measured in foreign currency has increased sufficiently due to the steep decline in domestic share prices). This may overturn quite successful corporate governance structures and replace them with ones that are less suited.

Such markets for corporate control have not yet evolved in emerging countries. These exist, if at all, in an embryonic form in a few developing economies. Significantly markets for corporate control do not exist even in most ACs, including notably West Germany and Japan. This is not an evolutionary deficit in these countries but rather a matter of deliberate design (Singh, 2001; Odagiri, 1992).

An important question in the present context is whether a greater influence of the stock market would lead to an improvement in corporate governance and in corporate performance. Singh (1997, 1999b, 2003a) has argued in previous contributions that the stock market pricing process and the take-over mechanism are not in general very helpful in improving economic performance in advanced countries and there are good reasons to suggest that they are even less likely to do so in developing countries.

VII. Legal Origin, Corporate Law, Corporate Finance and the Stock Market

The International Financial Institutions' (IFIs) preference for the Anglo-Saxon model of corporate governance is based on what they regard as "best practice". Conspicuously, it is not based on systematic theoretical analysis or rigorous empirical research. However, a recent series of papers by Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Schleifer and Robert Vishny (hereafter referred to as LLSV) on law and finance has helped fill these theoretical and empirical *lacunae*.

The LLSV thesis

The central proposition of the by now fairly extensive literature generated by LLSV and their colleagues is that there is a systematic causal relationship between the legal framework, the corporate financing patterns, corporate behaviour and performance,

and overall economic growth. The LLSV analysis is based on an empirical and theoretical evaluation of different legal systems whose historical origins are exogenous (or, in the case of LDCs, they are a legacy of colonial rule). The main analysis focuses on the differences between the common and civil law traditions.

A distinguishing characteristic of these contributions is their strong empirical emphasis. The empirical results presented by LLSV indicate that the predictions of the legal origin model are verified by empirical evidence.

The Berglof and von Thadden Critique

There are two significant lines of criticism that can be directed against this body of thought. The first, articulated by Berglof and von Thadden,(1999) finds the theoretical framework presented in LLSV far too limited for examining corporate governance issues in developing countries. LLSV appear to be solely interested in the question of the protection of providers of external finance to the exclusion of other significant stakeholders in the firm.

Berglof and von Thadden also note that the reference point for the LLSV study is the widely-held, Berle and Means-type corporation which is prevalent mainly in the United States and the United Kingdom.

The typical firm in developing countries, however, is a family-controlled or closely-held by block holders, i.e. it has concentrated share ownership. The important corporate governance problem for this class of firms is not legal protection for outside shareholders but rather the problems of family succession and maintaining family control while raising funds from outside investors.

The LLSV argument is also susceptible to the fact that the direction of causality between legal system and financial structure could run in either direction. The legal system may lead to the formation of a certain financial structure, as LLSV maintain, but it is at least equally plausible that the financial structure may also lead to the creation of legal norms.

It is important to note that even on its own terms, maximising investor protection cannot be optimal. It will result in the dilution of efficiency advantages deriving from the lower agency costs of concentrated ownership.

The Glen, Lee and Singh analysis

The second and rather different critical line of argument against the central LLSV thesis has been presented by Glen, Lee and Singh (2000). They suggest that over the past 50 years there have been major changes in the economic regime and in the role of stock markets in India. These have occurred without any fundamental changes in India's constitution, basic legal framework or its legal origins. Rather, the law has shown itself to be able to accommodate the needs and desires of India's economic policy makers.

Finally, the LLSV analysis also requires us to accept that countries with a civil law tradition and, consequently, less protection for outside investors, have been either willing to accept or ignorant of the economic costs of their legal system.

VII. Stock Market Regulation and Developing Countries

There was an enormous expansion of DC stock markets in the 1980s and 1990s in the wake of financial liberalisation in many of these countries. Compared with the highly organised and extensively regulated stock market activity in the US and the UK, most DCs do not have such well-functioning markets. Not only is there inadequate government regulation, but private information gathering and disseminating firms are also often absent in DCs. These markets continue to suffer from significant regulatory and informational deficits: most DC markets remain 'immature' (i.e., riddled with insider trading and lack of transparency) and relatively illiquid. Most trading takes place in a few blue-chip shares (Singh, 1995; 1997).

DCs have found it difficult to regulate stock markets, as is indicated by frequent scams on DC stock markets. This should not be surprising as even highly regulated and well-functioning markets, such as those of the US, from time to time experience episodes such as those of Enron and WorldCom. Nevertheless, Singh (1998) has argued that one regulatory reform, which would be particularly useful for DCs, is to stop the creation of a market for corporate control. Such a market, as indicated above, exacerbates the negative effects of stock markets (e.g. short-termism) from the perspective of economic development. This reform may however involve major changes in company law, reducing the role of shareholders and enhancing that of stakeholders or the government in takeover situations. DC governments need to find cheaper and more efficient ways of changing corporate managements than the lottery and the huge expense of the market for corporate control. They should also encourage product market competition to discipline corporations rather than rely on the stock market for this purpose.

There are good theoretical reasons for expecting DC share prices to be volatile, an expectation which is confirmed by the data. Evidence suggi5Eis reforny law, tpEa. 1e mbleottery ng2

In the event of a large shock (domestic or external) these interactions generate a negative feedback that may lead to, or greatly worsen, a financial crisis.

VIII. Conclusion

To sum up, this paper suggests that stock markets may be potent symbols of capitalism, but paradoxically capitalism works as well, if not better, when stock markets do not have a major role in the economy. This is particularly so from the perspective of economic development in emerging countries.

Table 1: Stock Markets in Africa and in Selected Developing and Advanced Economies, Market Capitalisation, and Relative GDP

Sub-Saharan Africa				
Country	**Market Cap.**		**Proportion of GDP**	
	US$ mn			
	1994	**2003**	**1994**	**2003**
Botswana	377	2131	0.98	0.41
Cote d'Ivoire	428	1650	0.48	0.16
Ghana	1873	1426	0.20	0.25
Kenya	3082	4178	0.44	0.37
Mauritius	1514	1955	0.44	0.41
Namibia	201	308	0.06	0.08

India	127,515	279,093	0.44	0.56

	US$ mn		(%)		
	1994	**2003**	**1991**	**1995**	**2003**
India	27,376.0	284,802.0	56.8	10.5	102.0
Thailand	80,188.0	96,573.0	102.2	41.4	81.4
Malaysia	126,458.0	50,135.0	20.2	35.9	29.8
Korea	286,056.0	682,706.0	82.3	97.8	173.9
Brazil	109,498.0	60,435.0	22.0	47.8	25.8
Mexico	82,964.0	23,489.0	47.9	33.0	19.2
Advanced Country Markets					
Country	**Trading Value**		**Turnover Ratio**		
	US$ mn		(%)		
	1994	**2003**	**1991**	**1995**	**2003**
Italy	117,894	663,211	45	n.a	107.86
UK	464,085	2,150,753	77	n.a	177.71

*Source: IFC Factbooks (various issues)

Table 3: Number of Listed Companies

Sub-Saharan Africa	
Country	**# Listed Companies**

Thailand	389	405
Malaysia	478	897
Korea	699	1563
Brazil	544	367
Mexico	206	159

*Source: IFC Factbooks (various issues)

Table 4. *The financing of corporate growth in ten emerging markets during the 1980s*

Country	***Internal finance***	**External finance (equity)**	**External finance LTD**
Brazil	56.4	36	7.7
India	40.5	19.6	39.9
Jordan	66.3	22.1	11.6
Malaysia	35.6	46.6	17.8
Mexico	24.4	66.6	9
Pakistan	74	1.7	24.3
Republic of Korea	19.5	49.6	30.9
Thailand	27.7	NA	NA
Turkey	15.3	65.1	19.6
Zimbabwe	58	38.8	3.2
All	38.8	39.3	20.8
F^1	20.0*	31.4*	21.2*
F^2	16.69*	18.93*	6.38*

Note: 1. F-statistic for comparison of means across countries. '*' implies rejection of the null hypothesis of the equality of means. 2. Bartlett-Box F-statistic for variance across countries. '*' implies rejection of the null hypothesis of equality of variance. 3. External finance LTD refers to long-term debt. The accounting identity, which is the basis of the figures in this table, ensures that the total growth of net assets equals the sum of internal and external sources of financin

Table 5: *Net sources of finance for Germany, Japan, U.K. and U.S., 1970–1989 (percentages)*

	Germany	**Japan**	**U.K.**	**U.S.**
Internal	80.6	69.3	97.3	91.3
Bank finance	11	30.5	19.5	16.6
Bonds	-0.6	4.7	3.5	17.1
New equity	0.9	3.7	-10.4	-8.8
Trade Credit	-1.9	-8.1	-1.4	-3.7
Capital transfers	8.5	-	2.5	-
Other	1.5	-0.1	-2.9	-3.8
Statistical adj.	0	0	-8	-8.7

Source: Corbett and Jenkinson (1994)

AUSTRALIA	58%	32%	11%	ARGENTI	46%	16%	38%
AUSTRIA	52%	3%	45%	BRAZIL	74%	11%	15%
BELGIUM	56%	6%	38%	CHILE	44%	33%	23%
BERMUDA	41%	23%	36%	COLOMBI	73%	16%	11%
CANADA	56%	32%	12%	CZECH	33%	21%	46%
CAYMAN ISLANDS	90%	8%	2%	HONG	44%	20%	35%
DENMARK	72%	6%	23%	HUNGAR	28%	1%	71%
FINLAND	53%	26%	22%	INDIA	53%	5%	43%
FRANCE	61%	7%	31%	INDONESI	110%	12%	-23%
GERMANY	62%	5%	33%	ISRAEL	54%	6%	40%
GREECE	52%	34%	14%	KOREA	27%	48%	25%
IRELAND	76%	5%	18%	MALAYSI	40%	18%	42%
ITALY	68%	5%	27%	MEXICO	61%	30%	10%
JAPAN	62%	6%	32%	PHILIPPIN	34%	17%	49%
NETHERLANDS	65%	9%	26%	SOUTH	49%	10%	41%
NORWAY	50%	23%	27%	TAIWAN	59%	40%	1%
SINGAPORE	66%	15%	19%	THAILAN	74%	11%	15%
1 SPAIN	68%	-9%	40%	TURKEY	61%	18%	21%
SWEDEN	57%	4%	39%	VENEZUE	27%	54%	19%
SWITZERLAND	54%	7%	39%				
UNITED KINGDOM	52%	21%	27%				
UNITED STATES	47%	21%	32%				
Group Average	53%	17%	30%		35%	39%	27%

References: Highly incomplete

Allen, F. and D. Gale, (2000 or 2001?) *Comparing Financial Systems*, the MIT press, Massachusetts.

Aresits, P., Demetriades, P. and Luintel, K. (2001), 'Financial Development and Economic Growth: The Role of Stock Markets', *Journal of Money, Credit and Banking*, 33(1), 16-41.

Fama, E. 1970 'Efficient capital markets: A review of theory and empirical work'. *Journal of Finance*, vol. 25, 383-417.

Grossman, S and O. Hart. 1980. 'Take-over bids, the free-rider problem, and the theory of the corporation'. *Bell Journal of Economics*, 11, 42-64.

Hoshi, T. and A. Kashyap, (2001) *Corporate Financing and Governance in Japan: The Road to the Future*, the MIT press, Massachusetts.

Jensen, M., (1978) ' Some anomalies evidence regarding market efficiency', *Journal of Financial Economics*, 6, 95-101

Jensen, M. 1988. 'Take-overs: their causes and consequences'. *Journal of Economic Perspectives*, 2(1), 21–48.

Keynes, J. M. 1936. *The General Theory of Money, Interest and Employment.* Macmillan, London.

King, R.G. and R. Levine, (1993) 'Financial Intermediation and Economic Development.' In *Capital Markets and Financial Intermediation (eds.), Colin Mayer and Xavier Vives). Cambridge: Cambridge University Press.*

Levine, R., (1997) ' Financial Development and Economic Growth: Views and Agenda*'. Journal of Economic Literature, June, 35 (2), 688-726*

Levine, R. and S. Zervos, (1998) 'Stock Markets, Banks, and Economic Growth*'. The American Economic Review, Vol. 88 (3) 537-558.*

Pagano, M., (1993) 'Financial Markets & Growth: An Overview*'. American Economic Review, 37, 613-22.*

Porter, M.E. 1992. 'Capital Disadvantage: America's Failing Capital Investment System'. *Harvard Business Review*, Vol, no?, 65-82.

Scherer, F. M. 2007.

Ravenscraft, D.J., and F.M. Scherer. 1987. *Mergers, Sell Offs and Economic Efficiency*. Brookings Institution.

World Bank.1989. *World Development Report,* World Bank,Oxford University Press.

World Bank (1993) *The East Asian Miracle*, World Bank, Oxford University Press, New York.

World Bank (1989???)

World Bank (2002) *World Development Report*, World Bank, Oxford University Press. New York.