Does Financial Development in Stock Markets and Banks Reduce Inequality and Poverty? Evidence from Emerging Countries

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Abstract
An extensive literature has shown that financial development boosts the subsequent economic growth. However economists have long debated whether financial development contributes to less poverty and inequality. By employing principal component analysis to construct index measures for stock market development and banking development, the paper specifically investigates the impact of stock market/bank development on income inequality/poverty based on a panel data set comprised of emerging G-20 countries. The paper starts with a discussion of the finance-growth-inequality nexus. Next, we refine the relationship between financial development and inequality/poverty from the perspective of emerging countries. Mixed explanatory empirical findings suggest that financial development may not necessarily helps the poor in emerging economies. This initial result implies important policy implications.

Keywords: Stock markets; Banks; Income inequality, Poverty reduction, Economic growth
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