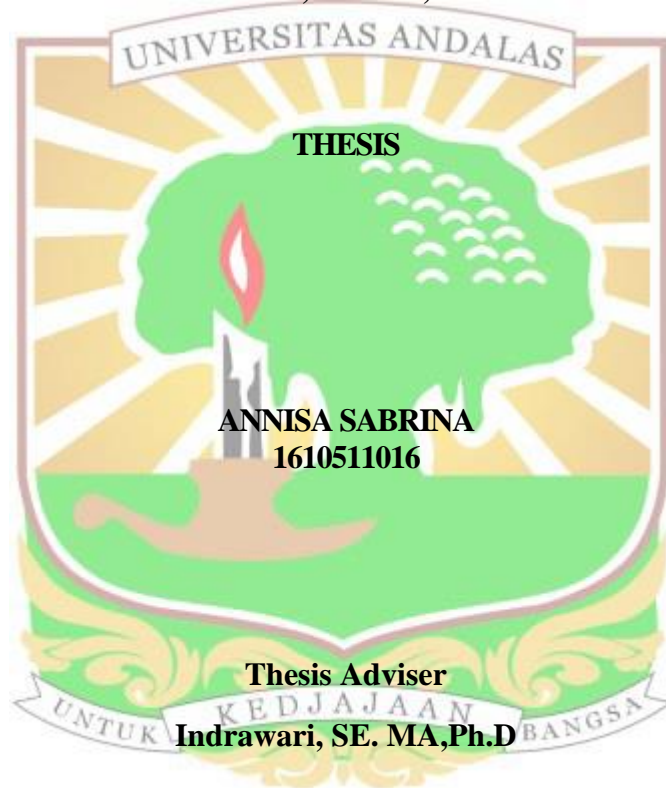




UNIVERSITAS ANDALAS

FINANCIAL LIBERALIZATION, CRISES, AND ECONOMIC GROWTH



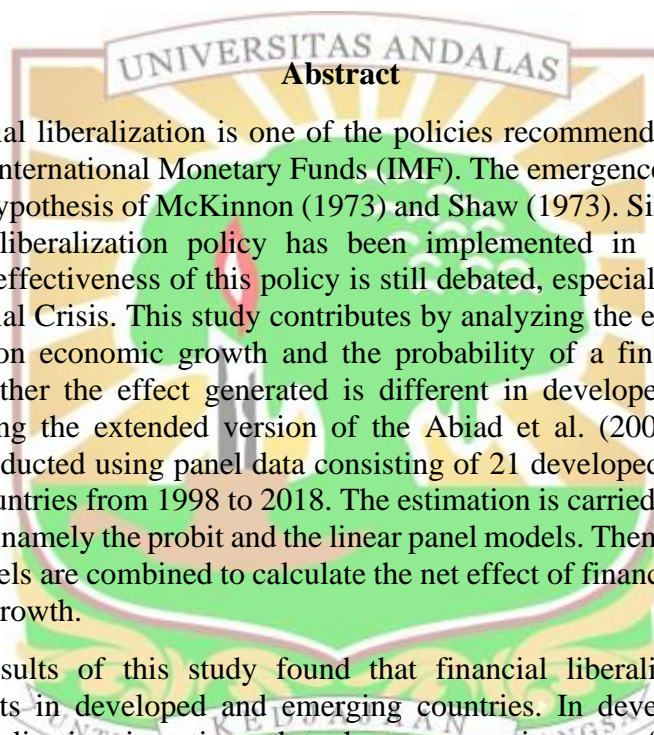
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Financial Liberalization, Crises, and Economic Growth

by

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Abstract

Financial liberalization is one of the policies recommended by the World Bank and the International Monetary Funds (IMF). The emergence of this policy is based on the hypothesis of McKinnon (1973) and Shaw (1973). Since its inception, the financial liberalization policy has been implemented in many countries. However, the effectiveness of this policy is still debated, especially after the 2008 Global Financial Crisis. This study contributes by analyzing the effect of financial liberalization on economic growth and the probability of a financial crisis and examines whether the effect generated is different in developed and emerging countries. Using the extended version of the Abiad et al. (2008) database, the analysis is conducted using panel data consisting of 21 developed countries and 9 developing countries from 1998 to 2018. The estimation is carried out using a two-step approach, namely the probit and the linear panel models. Then, the results from these two models are combined to calculate the net effect of financial liberalization on economic growth.

The results of this study found that financial liberalization produces different effects in developed and emerging countries. In developed countries, financial liberalization is estimated to have a negative net effect on growth. Meanwhile, in emerging countries, financial liberalization has a positive but insignificant net effect on growth. These results indicate that neither a fully liberalized nor overly controlled financial sector benefits growth. Therefore, it is recommended that liberalization policies in the financial sector be implemented, provided that specific controls are maintained.

Keywords: Financial Liberalization, Financial Crisis, Economic Growth, Probit Model, Linear Panel Model

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