

**Financial Development and Economic Stability (FDES)**

**M. Shahid Ebrahim<sup>a</sup>, Duc Khuong Nguyen<sup>b</sup> and Yildiray Yildirim<sup>c</sup>**

<sup>a</sup> *Durham University, Durham, United Kingdom and New York University, Abu Dhabi, UAE*

<sup>b</sup> *IPAG Business School, Paris, France*

<sup>c</sup> *Baruch College, CUNY, United States of America*

Financial sector development entails the optimal interaction of financial instruments, institutions and markets to allay the costs of information, enforcement and transaction. Additionally, it stimulates the efficiency of the financial sector thus enhancing economic growth through capital accumulation concurrence with technological advancement. More precisely, financial development aids in: (i) reducing poverty and inequality by enabling and broadening the access of financial services to the poor and underprivileged; (ii) facilitating risk management by alleviating the vulnerability to shocks; (iii) raising investment and productivity; and (iv) inculcating robust financial policies and regulatory framework to restrain shocks to the economic system (see Ebrahim, 2009). Academics and policymakers have long recognized that financial development is not only a result of economic growth but also a driver of it.

The literature suggests that financial development may be a source of financial instability beyond a certain threshold. That is, it may lead to either: (i) recurrent large recessions; or (ii) a pronounced business cycle; or (iii) variable inflation; or frequent financial crisis. Aghion et al. (2004) develop tractable framework to study the relationship between financial factor instability in open economies to illustrate that economies that are at an intermediate stage of financial development are the most unstable. This endogenous instability is rationalized by the vulnerability of firms' investment to shocks of cash flows. Lately, Aghion et al. (2009) confirm that the growth effects of real exchange rate volatility is contingent on the level of development.

A conference on Financial Development and Economic Stability (FDES) was jointly organized by Durham University Business School and IPAG Business School in partnership with the Journal of

Economic Behavior and Organization (JEBO) in late September 2016. Its aim were to gauge the opportunities and challenges of financial development as well as the conditions to ensure economic stability, with an emphasis on:

- a) Strengthening the role of financial development in economic growth by maneuvering funds towards productive activities;
- b) Deliberating policy options available to promote growth-enhancing forms of capital flows and an efficient intermediation by the financial sector;
- c) Advancing access to financial services to reduce poverty and social tensions; and
- d) Examining the impact of culture in enhancing or impeding financial development.

Roughly 160 papers were submitted for presentation out of which 30 papers were selected for presentation at the conference. The presented papers submitted to JEBO for review were evaluated. **Twelve** of these high-quality research papers are featured in this Special Issue. They are categorized into **four** groups.

I. Strengthening the role of financial development in economic growth by maneuvering funds towards productive activities.

(a) Cerasi, Fedele & Miniaci paper

(b) Shiller, Wojakowski, Ebrahim & Shackleton paper

II. Deliberating policy options available to promote growth-enhancing forms of capital flows and an efficient intermediation by the financial sector.

(c) Chaudhry, Bajoori & Nandeibam paper

(d) Cho, Contessi, Russ & Valderrama paper

(e) Beckman & Czudaj paper

- (f) Joyce paper
  - (g) Bøe, Jordal, Mikula & Molnàr paper
  - (h) Neira paper
  - (i) Wegener, Kruse & Basse paper
- III. Advancing access to financial services to reduce poverty and social tensions.
- (j) Ahamed & Mallick paper
  - (k) D'Onofrio, Minetti & Morro paper
- IV. Examining the impact of culture in enhancing or impeding financial development.
- (l) Fungáčová, Hasan & Weill paper.

## References

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*Acknowledgments:* we would like to thank the Co-Editors-in-Chief, Professors Daniel E. Houser and Daniella Puzzello, and Ex-Editor, William S. Neilson for providing us the opportunity to guest-edit this special issue of *Journal of Economic Behavior and Organization*. Our thanks also go to

the anonymous reviewers for their rigorous review reports as well as to the Journal manager, Hephzibah Beulah, for her helpful assistance during the whole editorial process.