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DOES SUPPLY-LEADING HYPOTHESIS HOLD IN A DEVELOPING ECONOMY? A NIGERIAN FOCUS

Abstract:

The financial sector provides services that have been identified as germane for the growth of an economy. The principal function of the financial sector is the movement of financial resources between different units in an economy through the process of financial intermediation. An economy suffers if the financial sector is not efficient. An efficient financial sector can only exist when development occurs in the financial sector. However, the supply-leading hypothesis assumes that financial development is the driver of economic growth. Thus this study inquires into whether the supply-leading hypothesis can be upheld in a developing economy, with particular reference to the Nigerian economic growth between 1981 and 2013. Using the Granger Pairwise causality test, it reveals that there is weak evidence in support of supply-leading hypothesis and the demand-following hypothesis is dominant in the economy. However, the study suggests that there is bi-directional causality between financial development and economic growth which thus confirms the existence of their interdependence in Nigeria context.

Keywords:

supply-leading hypothesis; financial development; economic growth; causality test; Nigeria

JEL Classification: O16, O47, C22