

THE CAPITAL MARKETS AND THE RULE OF LAW

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Abstract

The importance of capital markets in the economic life of the world has generated the question: „ which are the factors that influence its development”. Being part of a larger research project, the present paper looks for the connections between the rule of law and the development of capital markets. We take into account the Rule of law variable reported by the Worldwide Governance Indicators for a set of 45 countries. The data took into account regards a a time span of ten years (between 2000 and 2010). We test the hypothesis that between the rule of law and capital market development, there is a positive and significant correlation which remains robust even if control variables such as market liquidity, inflation, domestic credit to private sector and savings are considered. Then we exclude the possible dependence of this relation upon the other factors of market quality, by dividing the sample into two smaller groups, the OECD countries and the non-OECD ones.

Keywords: Rule of law, governance determinants, market development

Acknowledgments

This work was supported from the European Social Fund through Sectorial Operational Programme Human Resources Development 2007 – 2013, project number POSDRU/159/1.5/S/142115 , project title “Performance and Excellence in Postdoctoral Research in Romanian Economics Science Domain” and project number POSDRU/159/1.5/S/134197 , project title “Performance and Excellence in Doctoral and Postdoctoral Research in Romanian Economics Science Domain”