

DOES TRUST CONTRIBUTE TO STOCK MARKET DEVELOPMENT?

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KEYWORDS

Social Capital

Stock Market

Bayesian Model Averaging

Trust

Institution

INTRODUCTION

- Over the years, two trends of financial development have emerged:
 - i) Stock markets have developed rapidly in parallel with the banking sector in many parts of the world especially in emerging markets
 - ii) The growth of the Islamic finance industry
- Challenge: The identification of robust determinants that contribute to stock market development.
- The potentially plentiful determinants and the many competing theories and evidence developed under specific settings can give rise to uncertainty over the robustness of candidate determinants.
- The present paper contributes to the literature by examining the influence that social capital may exert on developing stock markets through a robust selection of determinants using the Bayesian model averaging (BMA).

DATA

Sample	Measures of stock market development
<ul style="list-style-type: none"> ▪ 60 countries (32 OECD and 28 non-OECD countries) for the average period from 2000 to 2006 that are listed in Lee et al. (2011)'s social capital index. ▪ The sample has a well-balanced representation of developed, developing and emerging markets allowing for variation of social capital and other measures. 	<ul style="list-style-type: none"> ▪ Three approaches have been chosen in the measurement of stock market depth and efficiency: <ol style="list-style-type: none"> a) stock market capitalization as a sole dependent variable as it has been argued to be less arbitrary than the other measures, and different measures of stock market development are highly correlated b) market capitalization, value traded, and turnover ratio used individually as dependent variables; and c) a composite index with the average of the three measures

CONCLUSION

- The results demonstrate that trust is a robust and positive determinant of stock market depth and liquidity.
- The relation between social capital, particularly trust, and market development is especially strong in countries characterized by lower formal institutional quality.
- Future research may explore the following topics:
 - i) **Stock market development** – to delve the determinants of other aspects of development particularly in relation to market access, integration and volatility
 - ii) **Sukuk (Islamic bonds)** – to examine potential determinants of the sukuk market development

