

Contents

1	Introduction.....	8
1.1	Motivation and approach.....	8
1.2	Framework and definitions	10
2	The research context.....	12
2.1	The neoclassical growth model	12
2.2	The financial sector and economic growth models.....	13
2.2.1	Functions of the financial sector	13
2.2.2	Too much of a good thing?	15
2.2.3	Financial sector and growth.....	17
2.3	Empirical research on the financial sector and growth.....	18
2.3.1	The nineties' literature	18
2.3.2	Taking the critique into account.....	19
2.3.3	Effects on small and large firms	20
2.3.4	Causality between aggregate growth and financial-sector development.....	21
2.4	Chapter summary.....	21
3	Selected facts about the Swiss financial sector.....	22
3.1	Size and development of the financial sector.....	22
3.2	Variation in regions and countries	23
3.3	Growth contributions of key industries of Switzerland	24
3.4	Sub-sectoral structure.....	25
3.5	International links of the Swiss financial sector	27
3.6	Chapter summary.....	30
4	Research setup	31
4.1	Measuring the financial sector	31
4.1.1	Excursus: Indicators of financial development in the literature.....	31
4.1.2	Indicators of financial development.....	33
4.1.3	Financial development of the Swiss economy.....	34
4.2	The transmission channels under scrutiny.....	35
4.3	Isolating the catalytic impact on growth	37
4.4	Key contributions to research	38
4.4.1	Concentration on OECD economies	38
4.4.2	Multiple specifications and indicators.....	38
4.4.3	Data at the sector level.....	38
4.4.4	Data at the regional level	39
4.5	Methodology and data	40
4.5.1	Data.....	40
4.5.1.1	Dependent variables.....	40
4.5.1.2	Key explanatory variables	41
4.5.1.3	Control variables	42
4.5.2	Econometric Model.....	43
4.5.2.1	Choice of random and fixed effects estimator	44
4.5.2.2	Stationarity.....	45
4.5.2.3	Correlations between financial development indicators	47
4.5.2.4	Causality and hypothesis-led analysis.....	48
5	Results	49

5.1	Hypotheses summary	49
5.2	Size of the financial sector	51
5.2.1	Specification	51
5.2.2	Results for growth of aggregate economy	53
5.2.3	Results for specific industries.....	57
5.3	Size of the regional financial sector	60
5.3.1	Specification	60
5.3.2	Results for growth of the regional economy	62
5.3.3	Results for growth in specific industries at regional level	66
5.4	Innovation	74
5.4.1	Specification	74
5.4.2	Results for Patents Growth in the aggregate economy	75
5.5	Systemic risks & volatility	78
5.5.1	Specification	78
5.5.2	Results for Output Growth Volatility in the aggregate economy	79
5.5.3	Results for Output Growth Volatility in the regional aggregate economy	79
6	Conclusion and summary	82
7	Literature	85