Abstract

This study aims to empirically examine the impact of financial sector development on Poverty reduction. The research extends the line of analysis by measuring financial sector development through two major effects. McKinnon's Conduit Effect and the Shaw's Intermediation Effect. So, the study attempts to measure the change in poverty level of an economy through these two major effects of financial development. Variables used in the study are Poverty Headcount Ratio at $ 1.90 a day, Trade openness (as a % of GDP), Inflation/consumer prices (annual %), Domestic credit to private sector (as a percentage of GDP) and Broad Money (as a percentage of GDP). The sample covers time period ranging from 1991-2015 i.e. t=25 years and includes 22 developing economies i.e. n=22. The results are derived by applying OLS, FE, RE, Hausman Test and at last the AR (1) model. The results reported support the contention that financial sector development can contribute to achieving the goal of poverty reduction in developing economies of the world.