
Abstract

Abstract of thesis entitled "Financial Development and Inequality: Evidence from Selected APEC Countries", submitted by Choi Pak Kit (M-A6-6805-3) for the degree of Master of Social Sciences at the University of Macau in July 2008.

This study analyzes the relationship between financial development and inequality using panel data from 14 APEC countries from 1960 to 2006. Based on the system Generalized Method of Moments (GMM) estimator, a positive relationship between financial development and inequality is observed. The results of this study contrast with previous findings due to the different sampled countries and the advanced econometric technique employed which collapsed the instrument counts.

Moreover, the comparison of this relationship between the developed and developing countries is analyzed by including an interaction term between developing countries and financial development. For developing APEC countries, the positive relationship is much smaller. As the financial market develops, the change of income gap is relatively smaller in developing countries compared with developed countries.

There is not enough evidence that financial development benefits only the poorest quintile. As a result of financial development, the income share of both the poor and the rich improves. Thus, this study shows that the poor as well as the rich improve their

income status when there is financial development in their country.

Empirical tests are done to test alternative theoretical hypotheses on the relationship between financial development and income inequality. The results confirm previous work regarding the linear relationship between financial development and inequality while rejecting the non-linear relationship.

Keywords: Financial development, Inequality, GMM, APEC