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Financial Structure, Firm Size and Industry Growth

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Abstract

This paper provides new empirical evidence to the intensive debate of whether financial structure—the extent to which a country has bank- or market-based—is relevant for economic growth. Using the cross-industry and cross-country data, it finds that industries dominated by small firms grow faster in a country with a more bank-based financial system. It also finds that the effect of financial structure on industry growth runs mostly through growth in the number of establishments rather than through growth in the average size of establishments. The evidence is robust to a battery of sensitivity tests. Our

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