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THE REAL EFFECTS OF LOCAL FINANCIAL DEVELOPMENT

Luigi Guiso

University of Sassari, Ente “Luigi Einaudi” & CEPR

Paola Sapienza

Northwestern University & CEPR

Luigi Zingales*

University of Chicago, NBER, & CEPR

Abstract

We construct a new indicator of financial development by estimating a regional effect on the probability that, *ceteris paribus*, a household is shut off from the credit market. By using this indicator we explore the real effects of regional differences in financial development. We find that financial development enhances the probability an individual starts his own business, favors entry, increases competition, and promotes growth of firms. As predicted by theory, these effects are weaker for larger firms, which can more easily raise funds outside of the local area. Overall, the results suggest *local* financial development is an important determinant of the economic success of an area.

JEL Classification:

Keywords: Financial Development, Entrepreneurship, Economic Development.

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