

A Study on Financial Market Participation and Its Impact on Inclusive Growth and Employment Outcomes

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Abstract

The involvement of financial markets has become a major contributor to inclusive economic growth and labor market performance. This paper will seek to discuss the role of investment in the financial market in promoting fair growth, earning, and job creation. The study through a conceptual review methodology, synthesizes the existing literature on both financial economics, behavioral finance and development studies. The results show that the involvement of financial markets increases the wealth creation, financial inclusion and entrepreneurship, thus resulting in inclusive growth. In addition, inclusive growth is also a channel by which participation determines employment outcomes like job creation and income stability. Certain blocks (financial illiteracy, behavioral bias, and digital inequality), however, do not allow effective participation. The paper establishes gaps in the research, especially the absence of micro-level investigation to connect financial participation to work achievements in the emerging economies. The article has value in that it presents a combined conceptual framework and provides policy implications on the policymakers and financial institutions.

Keywords: Financial Market Participation, Inclusive Growth, Employment Outcomes, Financial Inclusion, Investment Behavior

Introduction

Financial market participation has been used to refer to the presence of individuals in capital market by investing in financial instruments, i.e., stocks, bonds, and mutual funds and is crucial in mobilizing savings, easing efficient allocation of capital and overall growth of an economy (Levine, 2005; Merton, 1987). Improved participation is especially notable in the case of developing economies, as it helps to decrease the level of income inequality and ensure the trend of increased economic inclusion (Beck et al., 2007; Demirguc-Kunt et al., 2018). This theoretical basis is built on the financial development theory according to which well-working financial systems enhance resource distribution and economic outcomes (Levine, 2005) and the financial inclusion framework that suggests that the access to financial service facilitates broader involvement and reduces social-economic inequalities (Allen et al., 2016). Moreover, the financial participation in question is a strategic ability that enhances the economic stability of an individual (Resource-Based View (RBV) conceptualizes financial participation) and the behavioral

finance theory emphasizes that psychological distortions, such as risk aversion and overconfidence, play a significant role in influencing investment decisions of individuals (Kahneman and Tversky, 1979). Although numerous global financial markets continue to grow, they have yet to be accessible to all socio-economic groups because of limitations that include a lack of financial literacy, mistrust in financial system, absence of digital access, and as such, limiting the possibilities of financial markets to promote inclusive growth and job creation. In this regard, the current research undertaking has relevance since it tries to investigate the effect of the involvement of financial markets on inclusive growth and employment prospects and specifically in developing economies by incorporating both financial and socio-economic aspects and to a policy discourse about financial inclusion and labor markets development (Stiglitz, 2012; Sen, 1999). Despite the considerable body of existing literature on macroeconomic growth and financial inclusion, there is still an important research gap, as existing studies have given minimal empirical focus to the investigation of the direct relationship between financial involvement and employment rates, particularly at individual and firm levels of analysis in the emerging markets thus necessitating the use of additional empirical studies.

Review of Literature

- Levine (2005), “Finance and Growth: Theory and Evidence” Levine explores the impact of development of financial markets on the economic growth by efficient allocation of capital. The paper has emphasized how a wider presence in the financier’s market improves distribution of resources and productivity. Nonetheless, it defines growth linkage, but makes no direct discussion on the inclusive growth or decent work outcomes.
- Beck, Demirguc-Kunt, Levine (2007) “Financing, Inequality, Poverty: Cross-Country Evidence”. This paper examines the connection between the financial development and income inequality. It uses the cross-country data and concludes that improved financial participation decreases poverty and inequality. The study reinforces the inclusive growth aspect without direct observation of the quality of employment and decent work.
- Demirguc-Kunt et al. (2018), “Global Findex Database 2017: Financing the Fintech Revolution”. The research offers facts on the ability of accessing financial systems to the financial market participation. It demonstrates that the financial inclusion enhances the economic opportunities and promotes the generation of incomes. Nevertheless, the research does not delve into the effect on the employment situation or the decent work performance.
- Allen et al. (2016), “The Foundations of Financial Inclusion”. This study brings out the fact that the availability of formal financial systems leads to an increase in the number of people who engage in the financial markets, especially those who are underserved. The results indicate that there is better economic inclusion and financial stability due to inclusion. However, it has an indirect relationship with creating employment.
- Ayyagari, Demirguc-Kunt and Maksimovic (2011), “Small vs. Young Firms Across the World”. The paper will be looking at the role of financial access in supporting the growth of firms and employment. It concludes that better financial inclusiveness assists in entrepreneurship and creation of jobs. Although it is applicable to decent work, the research does not specifically examine the individual participation in the stock markets.
- Lusardi and Mitchell (2014), “Economic Importance of Financial Literacy: Theory and Evidence”. In this research, financial literacy is established as a major factor of financial market participation. It

concludes that more financially knowledgeable people will invest hence enhance their financial health. The study however does not specifically associate participation to employment or inclusive growth outcomes.

- Guiso, Sapienza, and Zingales (2008), “Trusting the Stock Market”. The study focuses on how trust can be used to motivate stock market participation. The results show that when trust levels are higher, the level of investment becomes high, and this can be used to boost financial inclusion. Its wider implication on decent work and employment is not however pursued.
- Shiller (2003), “Moving past the Efficient Markets Theory to Behavioral Finance”. Shiller identifies behavioral limitations in the participation in the financial market including irrational decision-making and market perceptions. The study covers the barriers to participation but does not mention inclusive growth or employment results directly.
- Stiglitz (2012), “The Price of Inequality” Stiglitz insists that the access to the financial markets, that is not equal, leads to the increase of the economic inequalities. The research is suggesting that inclusive growth can be pushed with the wider range of financial involvement. Yet, it does not have any empirical evidence to connect participation with decent outcomes of work.
- Duflo and Banerjee (2011), “Poorest Economics: A Radical Rethinking of the Way to Fight Global Poverty”. This research paper explores the effects of the availability of financial resources in order to reduce the level of poverty and improve livelihood. It implies that economic inclusion can be improved by financial inclusion. Nevertheless, it does not directly examine the stock market participation and its contribution to the quality of employment.

Research Methodology

In this research, the conceptual research design was applied because it relies on secondary data sources, such as academic journals, policy reports, and financial publications. Relationships between financial market participation, inclusive growth and employment outcomes are analyzed through deductive approach. The paper uses a thematic content analysis to conduct a systematic analysis of the secondary data based on academic articles, policy reports, and financial publications. Firstly, appropriate documents are coded to replicate common patterns and ideas concerning market engagement of the financial market. These codes are further categorized under general themes of financial access, investment behavior, financial literacy, digital inclusion and employment generation. In this way, the study explains the interaction of these variables and their implication on the inclusive growth and employment results. The thematic analysis also helps to organize the relationship between variables and this promotes the construction of a conceptual model. Also, through critical comparison of themes across the researches, the analysis aids in identifying the gaps in researches especially the inadequate empirical connectivity between the financial market participation and employment outcomes within the emerging economies, thus as guidance to future studies.

Conceptual Framework

The thematic content-based analytical framework is designed in the way that it presents the correlation between the identified variables and their impact on inclusive growth and employment outcomes. The codes obtained are grouped into five main constructs, namely financial access, investment behavior, financial literacy, digital inclusion, and the employment generation. In this context, the involvement in the

financial market is the main independent variable, which is operationalized with the help of such indicators as availability of financial tools and the number of investment activities of participants.



Financial literacy is theorized as a mediating variable because it increases the ability of people to comprehend the financial products and make wise decision regarding the investment, which reinforces the outcomes of participation. Equally, the factor of digital inclusion is facilitating or moderating, increasing or decreasing market entry barriers with the help of fintech platforms and digital infrastructure. The framework goes further to stipulate that inclusive growth, which is manifested in a reduction in the income inequality, an increase in the financial inclusion, and a better economic opportunity, with the increased participation. Inclusive growth, in its turn, leads to employment results, such as the creation of jobs, the stability of income, and the development of entrepreneurship. In this way, the employment outcomes are regarded as the final dependent variable in the model.

The analysis explains these relationships based on the cause-and-effect chain where the participation of the financial markets has an indirect effect on the employment outcomes due to its relation via inclusive growth and even reinforced by literacy and access to the digital. This systematic framework does not only clarify the directions of influence but also identifies gaps in the available literature especially the unverified nature of these relationships in the growing economies and thus offer a basis to future hypothesis testing and model development.

Discussion

The results indicate that inclusive growth heavily relies on the financial market participation that facilitates the creation of wealth and decreases the income inequality. Participation improves financial inclusion by availing to the people investment opportunities and financial resources. Inclusive growth is one of the channels, in which finance participation has an impact on decent work delivery. This helps to create more jobs and expand incomes because it encourages economic stability and entrepreneurship. The success of such a relationship, however, is mediated and moderated by the factors of financial literacy and access to the Internet. Financial literacy will also increase the capacity of individuals to make informed investment choices hence improve the effects of participation on inclusive growth. On the same note, digital access will also enable participation, as it will decrease barriers and enhance accessibility. Although these advantages exist, participation is constrained because of other obstacles, which include behavioral biases, lack of awareness, and digital inequality especially in developing economies.

Conclusion

The involvement in the financial markets is an essential impetus of inclusive growth and decent working results. The research indicates that the participation helps in wealth creation, entrepreneurship, and

financial inclusivity hence, equitable economic development. The theoretical framework constructed in this research paper incorporates both financial and socio-economic aspects, which give a full picture on the extent to which financial involvement affects employment and livelihoods. The results support the role of financial literacy and access to the Internet in enhancing the advantages of participation. Policy-wise, it is worth trying to promote financial education, build an improved digital infrastructure, and ensure that the financial markets are accessible to everyone. The future studies should also focus on empirical testing of the given framework and the role played by developing technologies in increasing financial involvement and its influence on society and economy.

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