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Financial Deepening, Spatial Spillover and Urban-Rural Income Gap: Spatial Econometric Analysis Based on Provincial Panel Data

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As one of the core engines of economic growth, whether financial deepening can reduce the income gap between urban and rural areas has been the focus of policy makers and researchers. Using 31 provincial panel data from 2002 to 2013 in China, this paper examines the impact of financial deepening on the income gap between urban and rural residents. Our study find that financial deepening has a significant spatial spillover effect on the income gap between urban and rural areas in China. Based on the Spatial lag model (SLM) estimates, financial deepening and China's urban-rural income gap is negative, that is, for every 1% increase in financial deepening can reduce China's urban-rural income gap about 0.5%. Further research has investigated that the influence of financial deepening on the income gap between urban and rural areas has a selective effect. In particular, financial deepening in the western region has a greater marginal effect on the income gap between urban and rural areas than in the East, while in the East it is greater than in the Central region. From the view of the decomposition effect of financial deepening, we also find that the proximity effect of the Eastern and Central regions is higher than that of the local effect, while the local effect of the Western region is higher than that of the Eastern and Central regions, but the proximity effect is not significant. The conclusion of this paper is of great significance to further deepen financial reform, improve the quality of financial development and realize the high-quality economic transformation and development.

Keywords: Urban-Rural income gap; Financial deepening; Space spillover effect; Spatial lag model (SLM)