

**Table 1:** Descriptive Statistics and the Correlation Matrix

	<i>Mean</i>	<i>Std. Dev.</i>	<i>SDGDP</i>	<i>SDCONS</i>	<i>SDINV</i>	<i>BANK</i>	<i>LLY</i>	<i>PRIVATE</i>	<i>PRIVY</i>
<i>SDGDP</i>	5.88	4.93	1	.85	.59	-.349	-.004	-.210	-.265
<i>SDCONS</i>	6.20	5.81	...	1	.65	-.377	.08	-.197	-.249
<i>SDINV</i>	14.0	8.93	...	...	1	-.313	-.116	-.066	-.293
<i>BANK</i>	.727	.200	...	...	...	1	.048	.375	.410
<i>LLY</i>	.147	.077	...	...	...	...	1	-.004	.253
<i>PRIVATE</i>	.714	.368	...	...	...	...	...	1	.170
<i>PRIVY</i>	.282	.219	...	...	...	...	...	...	1

**Table 2:** Fixed Effects Estimation

Dependent Variable: STANDARD DEVIATIONS OF GDP, CONSUMPTION, AND INVESTMENT GROWTH  
(Annual Rates)

	<i>GDP</i>				<i>C</i>				<i>I</i>			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>BANK</i> <sub><i>t</i>-1</sub>	-8.18* (2.89)	...	...	...	-9.30* (3.02)	...	...	...	-9.97* (4.82)	...	...	...
<i>LLY</i> <sub><i>t</i>-1</sub>	...	8.40 (5.56)	...	...	...	11.1* (5.20)	...	...	...	9.92 (8.95)	...	...
<i>PRIVATE</i> <sub><i>t</i>-1</sub>	...	...	-2.31* (.643)	...	...	...	-2.37* (.662)	...	...	...	-1.32 (1.84)	...
<i>PRIVY</i> <sub><i>t</i>-1</sub>	...	...	...	-2.06 (2.74)	...	...	...	-.968 (2.66)	...	...	...	4.96 (4.77)
<i>GROWTH</i> <sub><i>t</i></sub>	.219 (.212)	.174 (.216)	.193 (.216)	.170 (.220)	.330 (.310)	.234 (.319)	.280 (.311)	.252 (.316)	.083 (.123)	.117 (.122)	.084 (.122)	.098 (.116)
<i>MEAN</i> <sub><i>t</i>-1</sub>	.151 (.230)	.014 (.255)	-.008 (.250)	.003 (.240)	.237 (.404)	.066 (.429)	-.144 (.431)	-.052 (.410)	-.246 (.588)	-.517 (.593)	-.559 (.571)	-.569 (.546)
<i>INFMEAN</i> <sub><i>t</i></sub>	-.016 (.044)	-.030 (.045)	-.044 (.046)	-.029 (.045)	-.029 (.048)	-.025 (.049)	-.062 (.050)	-.023 (.049)	-.011 (.079)	-.009 (.081)	-.043 (.081)	-.009 (.080)
<i>INFSTDEV</i> <sub><i>t</i></sub>	.046 (.031)	.056** (.032)	.067* (.032)	.053** (.032)	.074* (.034)	.066** (.034)	.099* (.037)	.064** (.034)	.049 (.076)	.043 (.079)	.076 (.079)	.043 (.078)
<i>FXVOL</i> <sub><i>t</i></sub>	10.8* (4.73)	11.7* (5.07)	13.0* (5.12)	11.7* (5.26)	9.20* (4.10)	10.0* (4.47)	12.0* (4.43)	10.3* (4.66)	17.9* (6.73)	18.9* (7.01)	20.1* (7.07)	20.0* (7.05)
<i>No. of obs.</i>	198	192	197	198	199	192	198	198	198	191	197	197
<i>R</i> <sup>2</sup>	.56	.53	.55	.54	.62	.59	.61	.59	.68	.67	.68	.67

Note: Country-specific and time-specific fixed effects estimate. Heteroskedasticity-corrected standard errors are in parentheses. \*, \*\* respectively denote significance at the 5 percent and 10 percent levels. The variables *GOVMEAN*, *GOVSTDEV*, *POLITY*, *OPEN*, *OPEN \* FXVOL* are included but not shown.

**Table 3:** Fixed Effects Estimation with all Finance Variables

Dependent Variable: STANDARD DEVIATIONS OF GDP, CONSUMPTION, AND INVESTMENT GROWTH  
(Annual Rates)

	<i>GDP</i>	<i>C</i>	<i>I</i>
	(1)	(2)	(3)
<i>BANK</i> <sub><i>t</i>-1</sub>	-6.88* (2.91)	-7.23* (2.94)	-9.81** (5.44)
<i>LLY</i> <sub><i>t</i>-1</sub>	5.26 (5.69)	7.38 (5.62)	7.59 (8.96)
<i>PRIVATE</i> <sub><i>t</i>-1</sub>	-1.54* (.583)	-1.49* (.539)	-.354 (1.66)
<i>PRIVY</i> <sub><i>t</i>-1</sub>	1.25 (2.73)	2.78 (2.55)	9.18** (5.40)
<i>GROWTH</i> <sub><i>t</i></sub>	.216 (.209)	.270 (.309)	.085 (.124)
<i>MEAN</i> <sub><i>t</i>-1</sub>	.153 (.222)	.254 (.379)	-.403 (.617)
<i>INFMEAN</i> <sub><i>t</i></sub>	-.031 (.046)	-.026 (.049)	.004 (.080)
<i>INFSTDEV</i> <sub><i>t</i></sub>	.057** (.031)	.068** (.035)	.038 (.075)
<i>FXVOL</i> <sub><i>t</i></sub>	12.1* (5.12)	10.5* (4.45)	18.8* (6.90)
<i>No. of obs.</i>	190	190	189
<i>R</i> <sup>2</sup>	.56	.61	.68

Note: Country-specific and time-specific fixed effects estimate. Heteroskedasticity-corrected standard errors are in parentheses. \*, \*\* respectively denote significance at the 5 percent and 10 percent levels. The variables *GOVMEAN*, *GOVSTDEV*, *POLITY*, *OPEN*, *OPEN \* FXVOL* are included but not shown.

**Table 4:** Fixed Effects Estimation (5 year lags)

Dependent Variable: STANDARD DEVIATIONS OF GDP, CONSUMPTION, AND INVESTMENT GROWTH  
(Annual Rates)

	<i>GDP</i>				<i>C</i>				<i>I</i>			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>BANK</i> <sub><i>t</i>-1</sub>	-6.47** (3.59)	...	...	...	-7.33* (3.43)	...	...	...	-5.06 (4.43)	...	...	...
<i>LLY</i> <sub><i>t</i>-1</sub>	...	5.00 (3.59)	...	...	...	7.22* (3.48)	...	...	...	-3.49 (8.08)	...	...
<i>PRIVATE</i> <sub><i>t</i>-1</sub>	...	...	-3.27* (1.47)	...	...	...	-2.84** (1.49)	...	...	...	-3.55* (1.65)	...
<i>PRIVY</i> <sub><i>t</i>-1</sub>	...	...	...	-.010 (2.19)	...	...	...	-.704 (2.21)	...	...	...	.619 (4.97)
<i>GROWTH</i> <sub><i>t</i></sub>	.187 (.234)	.169 (.213)	.186 (.222)	.175 (.220)	.229 (.350)	.234 (.312)	.252 (.333)	.251 (.318)	-.012 (.123)	.115 (.122)	.024 (.120)	.101 (.121)
<i>MEAN</i> <sub><i>t</i>-1</sub>	.136 (.227)	-.020 (.269)	.168 (.247)	-.036 (.253)	.238 (.414)	.023 (.436)	.113 (.438)	-.105 (.433)	-.574 (.560)	-.688 (.617)	-.615 (.548)	-.501 (.581)
<i>INFMEAN</i> <sub><i>t</i></sub>	-.034 (.047)	-.025 (.045)	-.021 (.048)	-.028 (.045)	-.051 (.051)	-.016 (.049)	-.053 (.053)	-.023 (.050)	-.015 (.081)	-.016 (.081)	-.025 (.086)	-.010 (.081)
<i>INFSTDEV</i> <sub><i>t</i></sub>	.072** (.036)	.055** (.032)	.055 (.035)	.055** (.032)	.106* (.037)	.063** (.034)	.096* (.040)	.064** (.034)	.072 (.081)	.045 (.079)	.066 (.080)	.042 (.080)
<i>FXVOL</i> <sub><i>t</i></sub>	10.5* (4.97)	11.0* (5.14)	12.2* (5.01)	11.8* (5.13)	9.23* (4.38)	8.74** (4.60)	10.7* (4.55)	10.5* (4.54)	17.6* (7.06)	19.4* (6.68)	17.6* (7.13)	19.5* (7.04)
<i>No. of obs.</i>	190	198	188	195	191	198	189	195	190	197	188	194
<i>R</i> <sup>2</sup>	.55	.53	.57	.54	.62	.59	.61	.59	.69	.66	.69	.67

Note: Country-specific and time-specific fixed effects estimate. Heteroskedasticity-corrected standard errors are in parentheses. \*, \*\* respectively denote significance at the 5 percent and 10 percent levels. The variables *GOVMEAN*, *GOVSTDEV*, *POLITY*, *OPEN*, *OPEN \* FXVOL* are included but not shown.

**Table 5:** Fixed Effects Robust Regressions

Dependent Variable: STANDARD DEVIATIONS OF GDP, CONSUMPTION, AND INVESTMENT GROWTH  
(Annual Rates)

	<i>GDP</i>				<i>C</i>				<i>I</i>			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>BANK</i> <sub><i>t</i>-1</sub>	.426 (1.41)	...	...	...	-5.38* (1.56)	...	...	...	-8.58* (3.95)	...	...	...
<i>LLY</i> <sub><i>t</i>-1</sub>	...	-.844 (4.50)	...	...	...	.676 (2.93)	...	...	...	-.460 (9.83)	...	...
<i>PRIVATE</i> <sub><i>t</i>-1</sub>	...	...	-1.68* (.497)	...	...	...	-1.78* (.512)	...	...	...	2.60* (.924)	...
<i>PRIVY</i> <sub><i>t</i>-1</sub>	...	...	...	-2.32 (1.70)	...	...	...	-.577 (1.68)	...	...	...	4.24 (4.67)
<i>GROWTH</i> <sub><i>t</i></sub>	.135* (.063)	.016 (.074)	.025 (.070)	.122** (.066)	-.047 (.082)	-.103** (.056)	.034 (.083)	-.062 (.075)	-.063 (.082)	-.176* (.072)	-.262 (.350)	.049 (.082)
<i>MEAN</i> <sub><i>t</i>-1</sub>	.060 (.120)	.059 (.139)	.027 (.130)	.107 (.123)	.322 (.227)	.005 (.150)	.125 (.223)	.196 (.203)	-.098 (.495)	-.015 (.430)	.265 (.349)	.097 (.488)
<i>INFMEAN</i> <sub><i>t</i></sub>	.024 (.021)	.028 (.025)	-.030 (.024)	.024 (.022)	-.043** (.024)	-.016 (.016)	-.079* (.024)	-.005 (.022)	-.045* (.605)	.105* (.053)	-.057 (.043)	-.046 (.062)
<i>INFSTDEV</i> <sub><i>t</i></sub>	.051* (.021)	.043** (.024)	.078* (.024)	.050* (.022)	.074* (.023)	.078* (.016)	.088* (.024)	.058* (.021)	.179* (.059)	-.016 (.051)	.089* (.043)	.134* (.060)
<i>FXVOL</i> <sub><i>t</i></sub>	.437 (1.71)	2.84 (1.97)	6.53* (1.91)	1.90 (1.80)	6.37* (1.93)	2.65* (1.29)	13.4* (1.97)	2.20 (1.78)	7.13 (5.00)	9.31* (4.23)	18.2* (3.60)	10.9* (4.99)
<i>No. of obs.</i>	198	192	197	198	199	192	198	197	198	190	197	197

Note: Country-specific and time-specific fixed effects estimate. \*, \*\* respectively denote significance at the 5 percent and 10 percent levels. The variables *GOVMEAN*, *GOVSTDEV*, *POLITY*, *OPEN*, *OPEN \* FXVOL* are included but not shown.

**Table 6:** Two-Stage Least Squares Estimation

Dependent Variable: STANDARD DEVIATION OF CONSUMPTION GROWTH  
(Annual Rates)

	<i>C</i>			
	(1)	(2)	(3)	(4)
<i>BANK</i> <sub><i>t</i>-1</sub>	-6.23** (3.45)	...	...	...
<i>LLY</i> <sub><i>t</i>-1</sub>	...	1.78 (5.16)	...	...
<i>PRIVATE</i> <sub><i>t</i>-1</sub>			-3.41** (1.56)	...
<i>PRIVY</i> <sub><i>t</i>-1</sub>	...	...	...	-2.25* (1.24)
<i>ACCOUNT</i> <sub><i>t</i>-1</sub>	-.049 (.029)	-.079 (.060)	-.076* (.024)	-.097* (.022)
<i>ENFORCE</i> <sub><i>t</i>-1</sub>	-.334 (.582)	-.474 (.356)	.073 (.368)	-.174 (.303)
<i>CORRUPT</i> <sub><i>t</i>-1</sub>	.395* (.195)	.500* (.230)	.434* (.123)	.386* (.140)
<i>STRUCTURE</i> <sub><i>t</i>-1</sub>	.442 (.313)	-.105 (.430)	.530* (.241)	.738* (.359)
<i>FXVOL</i> <sub><i>t</i></sub>	2.80 (5.46)	7.74* (3.41)	7.71* (3.35)	9.27* (2.81)
<i>No. of obs.</i>	27	25	26	26
<i>R</i> <sup>2</sup>	.91	.96	.97	.97

Note: Country-specific and time-specific fixed effects estimate. Heteroskedasticity-corrected standard errors are in parentheses. \*, \*\* respectively denote significance at the 5 percent and 10 percent levels. The variables *MEAN*, *GROWTH*, *INFMEAN*, *INFSTDEV*, *GOVMEAN*, *GOVSTDEV*, *POLITY*, *OPEN*, and *OPEN \* FXVOL* included but not shown.