Shareholder Protection and Stock Market Development: An Empirical Test of the Legal Origins Hypothesis

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Using a panel data set covering a range of developed and developing countries, we show that common-law systems were more protective of shareholder interests than civil-law ones in the period 1995–2005. However, civilian systems were catching up, suggesting that legal origin was not much of an obstacle to formal convergence in shareholder protection law. We find no evidence of a positive impact of these legal changes on stock market development. Possible explanations are that laws have been overly protective of shareholders and that transplanted laws have not worked well in contexts for which they were not suited.

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