Additional Results

Tetsuya Saito

December 1, 2011

1 Deposit and Lending Rates

We consider alternative models by excluding the time indicator. The result is shown in Table 1. In the alternative models for deposit and lending rates, we then find that urbanization reduces the deposit rate while it raises the lending rate. The results are consistent with the prediction of the theoretical model (i.e. Figure 1). The implication of the results is quite plausible: urbanization increases the supply of deposit to reduce the deposit rate while it increases the demand for financial services to raise the lending rate.

2 Further Robustness Checks

2.1 Deposit and lending rates

For a robustness check, we randomly choose a set of countries to estimate the coefficient of urban population share. The null hypotheses (H_0) for the deposit rate and the lending rate are the coefficient is negative and positive, respectively. The results for 30 random and 80 random countries are shown in Figure 2 (C indicates the umber of randomly picked countries).

2.2 Velocity of money

For a further robustness check for the urban opulation share in the velocity of money, we consider a similar strategy as in the deposit and lending rates: randomly pick 10, 30, 50, and 80 countries to estimate the model. The results are shown in Figure 3. The coefficient of urban population share is positive is the null hypothesis of this examization.

Table 1: Reduced form fixed effect estimations of deposit and lending rates

	Deposit Rate		Lending Rate		Deposit Rate	
Urban Pop.	-0.6429**	(0.2225)	0.2742*	(0.1202)	-0.8438**	(0.2240)
Inflation	1.5024**	(0.1889)	0.9716**	(0.1536)	0.0383	(0.0736)
M1[a]	-0.1042†	(0.0578)	-0.3052**	(0.0456)	-0.0090	(0.0581)
Quasimoney[b]	0.4691**	(0.1036)	0.0619	(0.0596)	0.1214	(0.0777)
Lending Rate	—	—	—	—	1.1988**	(0.0814)
Intercept	2.2027**	(0.3914)	4.6715**	(0.2750)	-1.8146**	(0.5572)
Adj. R-sq.	0.3634		0.4610		0.6402	
N	3,524		3,224		3,076	

[a] Log of M1 per capita (2005 USD); [b] Log of % of quasimoney in M2
(Source: WDI 2009, FRB H15 3 mo. CD rate)

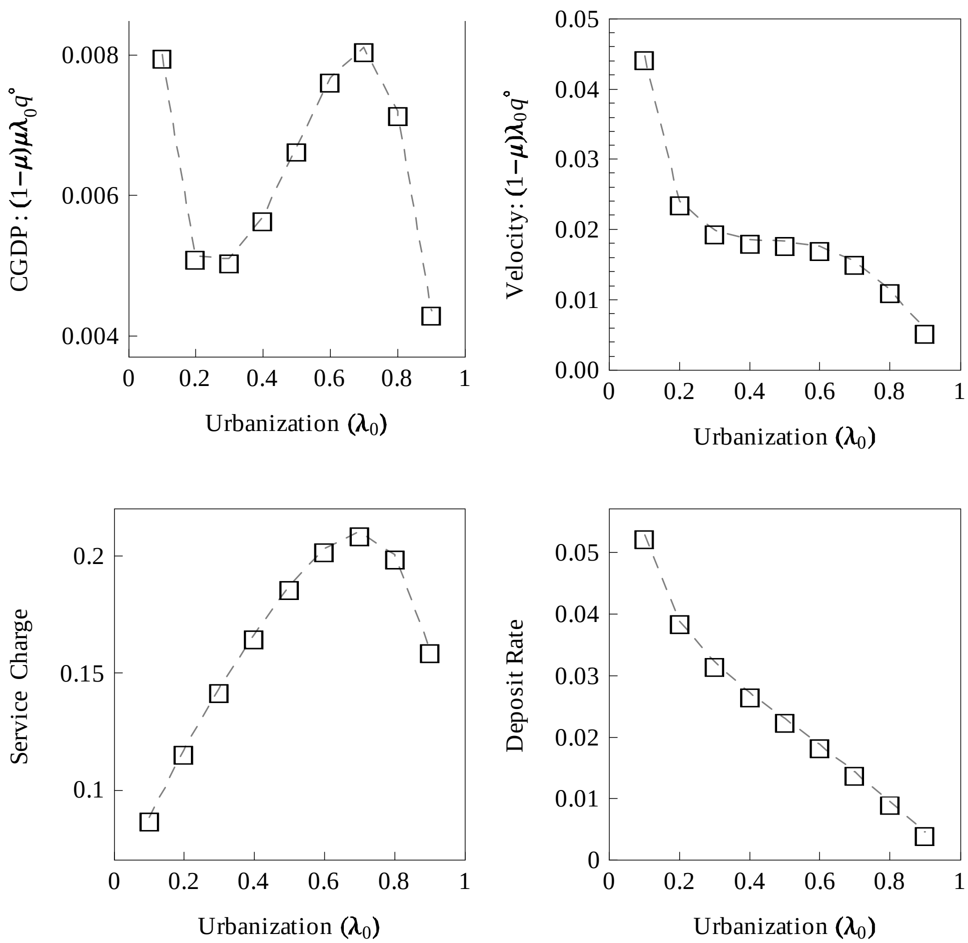

Figure 1: Changes in key variables to λ_0 with μ positively correlated with λ_0

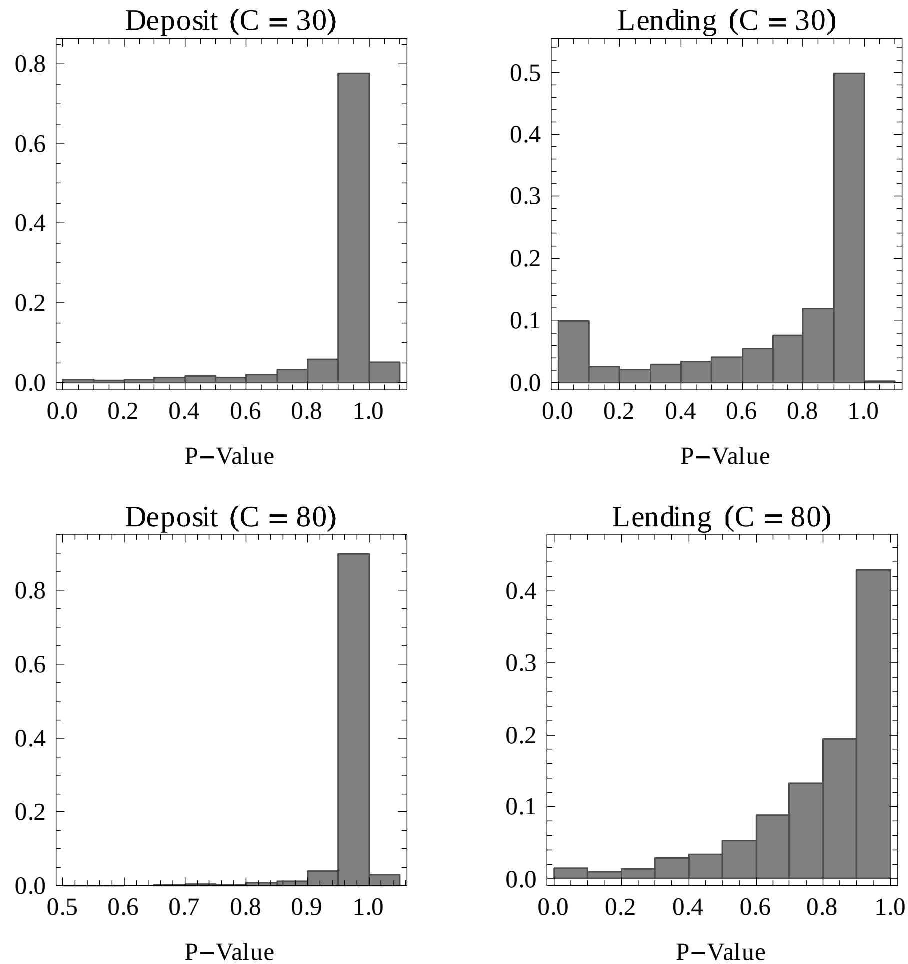

Figure 2: H_0: The coefficient of urban population share is *negative* for deposit rate, and it is *positive* for lending rate

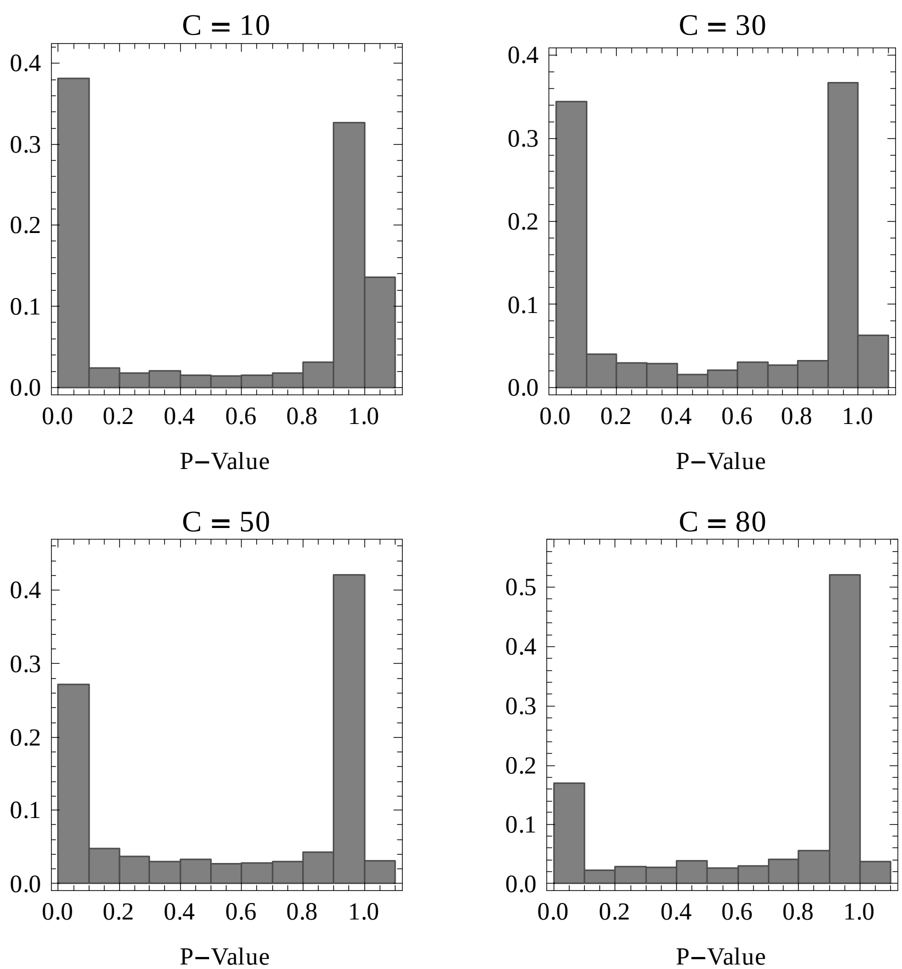

Figure 3: H_0: The coefficient of urban population share is positive