

The Big Innovation Bang

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Abstract

Does stock market development promote innovation? This topic is of particular significance given the importance of innovation both at firm and country level. Since regulators and, more generally, market participants, can alter or lobby to change financial market characteristics, my research question aims at addressing the effects of stock market development on the real economy. This paper exploits the 1986 London Big Bang, a package of deregulatory measures introduced by Margaret Thatcher's government, as a quasi-natural experiment for an improvement in stock market development and, consistent with the literature on financial development, shows that more external finance dependent industries increase their innovation output after the deregulation.