

# An Empirical Study on China's Financial Development and Economic Growth

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**Keywords:** Financial Development, Economic Growth, Empirical Research

**Abstract:** Under the background of current economic globalization, the frequent occurrence of financial crisis not only brings great challenges to our financial industry, but also has a serious impact on the economic development of our country. In the face of our country's economic growth level, the important policy of national relevant policies and systems to interfere with the market and carry out market regulation and control is an innovative development based on the law of value, which can reflect the important regulatory position of the government in the development of market economy, and the economic growth also affects the financial development in all aspects.

## 1. Introduction

Chinese and foreign scholars believe that financial intermediaries have positive significance in mobilizing savings, risk management, management supervision, project evaluation and transaction convenience, which can promote rapid economic growth, but whether this view is unified and effective in this developing country is still worthy of study and analysis. Therefore, this paper will explore the relationship between China's economic growth and China's financial development.

## 2. Concepts and Boundaries of Financial Development and Economic Growth

Financial development refers to the development of various elements of financial market, including the development and evolution of financial system and financial system such as financial organization, financial instruments, product price and so on. The most prominent manifestation of financial development is the change of financial organization and financial instruments. The process of financial development will promote the rapid development of the quantity of financial instruments and the types of financial institutions and organizations, thus improving the efficiency and quality of financial development in an all-round way.

The country's economic growth refers to the increasing variety of domestic economic commodities, the enhancement of economic capacity, the continuous improvement and adjustment of relevant ideology and rules and regulations, and the continuous integration and development of information technology. There are many manifestations of national economic growth, and we can analyze the growth of the national economy from the aspects of population change, scientific and technological change, per capita output value change, national income and so on. Among them, the most obvious characteristic of national economic growth is the sustained and steady increase of per capita national income or national income. The basis and motive force of the national economic growth are: the accumulation of capital, the application of advanced technology, the innovation and perfection of the system, the effective accumulation of human resources, and the optimization and perfection of the economic structure [1] (Chart. 1).



Figure 1 Economic structure

### 3. The Relationship between Stock Market and Economic Growth

#### 3.1 Optimization of Resource Allocation

The allocation of resources mainly depends on the relevant personnel to evaluate the current situation of the market, but as the cost of obtaining information increases, this makes part of the small and medium-sized investment cannot be carried out, and the enterprise cannot carry out external financing, which leads to the imperfect allocation of resources (Fig.2). However, with the continuous improvement of the stock market, it can play a role in collecting and publishing information, and the comprehensive strength of an enterprise can be reflected according to the price of the stock, which is that the information asymmetry is improved, and then the allocation of resources can be optimized [2].

#### 3.2 Enhanced Corporate Oversight

At present, China's financial institutions cannot directly enter the stock market, which makes investors in the way of enterprise supervision is affected. But otherwise, shareholders are better at conducting corporate oversight than financial institutions, because to maximize earnings, shareholders must first maximize the value of the business to zero, and shareholders can do so through the stock market. The development level of an enterprise can be reflected by various aspects, among which the main channel of the enterprise's development level can be displayed by the investors to carry out the stock price, and the managers will only choose the higher rate of return when choosing the project, so that the stock price can be increased, and then more investment can be added, and then the investors will get the benefit in the end [3].



Figure 2 External financing

### 4. The Relationship between Monetary Policy and Financial Development

#### 4.1 Income Effects

The income effect mainly reflects the relationship between the consumer's real income and the

commodity price. Simply put, if a consumer's real income is constant for a certain period of time, but the price of a certain item he buys daily is gradually increasing, then the consumer's number of purchases of such goods will decline during this period. That is, if the consumer's income remains the same, the higher the commodity price, the lower the purchase quantity of the commodity. This is evident in the decline in demand for such goods in the actual consumer market. The relationship between the real income of such consumers, the price of goods, the market demand for goods is the income effect (Fig.3).

#### **4.2 Profit-seeking Mechanism**

Profit-seeking mechanism is for financial institutions issued financial commodities. In the eyes of most clients of financial institutions, low interest rates on financial goods represent low returns and high interest rates represent high returns. Most customers choose high-interest-rate products between low and high rates, even if the products behind them are more risky. The psychology of clients of financial institutions is profit-seeking. In this case, financial institutions will produce high-interest and high-risk financial products to ensure their own economic benefits [4]. However, financial institutions have been trying to explore how to ensure the economic benefits of financial institutions, customer trust, and related risks, interest rate factors.

If it is in a more tolerant monetary policy, financial institutions will choose to sign a venture capital contract with customers, which cannot only guarantee the customer's psychological demand for profit, ensure the customer's trust in financial institutions, but also improve the economic benefits of financial institutions.

If the low interest rate financial products cannot meet the customer's profit-seeking psychology under the more tight monetary policy, but the financial institutions should ensure the economic benefit, so the financial institutions will take the risk to make more high interest rate investment, that is, under the influence of the profit-seeking mechanism, the financial institutions will take more risk.



Figure 3 Financial institutions

### **5. Strategies and Recommendations for Development**

#### **5.1 Improving Financial Regulation**

Financial industry and other economic industries are very different, because the financial industry is operating money, so it is very difficult to regulate and control it. However, if the financial industry cannot build a perfect and reasonable regulatory system, it will give many lawbreakers the opportunity to exploit legal loopholes and avoid financial risks through bad means, thus undermining the balance of market economy and affecting the social stability and economic development of our country. And in this case, the credibility of financial institutions will be vulnerable, the public trust in financial institutions, government will be greatly reduced, which will also cause market volatility [5].

And in the context of the information age, the financial industry is moving towards the direction of information. Many business transactions are based on internet platforms and related applications. However, because the laws and regulations of the related network transaction supervision are not

perfect, the lack of information disclosure construction, which will lack effective supervision on the financial transactions based on the Internet, and even make the accounting and handling of many economic business not subject to the law, which will actually cause great hidden danger to the economic market of our country, and pose a great threat to the development of the financial industry.

Therefore, it is very necessary for the state to formulate a regulatory system for the financial industry, through legislation to establish relevant laws and regulations in the financial industry, severely punish lawbreakers, and crack down on all financial fraud. In addition to enacting relevant laws, financial institutions and governments should also popularize the relevant laws and financial knowledge for the public, so as to work together to resist the financial crisis.

## **5.2 Strengthen Communication between Monetary Policy Formulation and Financial Institutions**

The relevant departments of the state should strengthen the formulation of monetary policy. At present, the monetary policy of our country is aimed at a certain financial industry or institution, which has certain limitations and unreasonableness. Because monetary policy has a great influence on the risk bearing of financial institutions, some too limited monetary policy will hinder the steady development of our financial industry, and even cause disputes and conflicts.

In addition, the monetary policy-making department of the government should communicate with the financial institutions regularly and effectively, because the three parties, the supervision department, the policy-making department and the financial institution, have different responsibilities and important roles in the process of the introduction and implementation of a monetary policy. Therefore, the formulation of monetary policy is not only the responsibility of the government's policy makers, but also the participation of different levels of monetary policy from different angles can ensure the perfection of the policy.

First of all, when the government formulates the monetary policy, it should give priority to inform the financial institutions, so that the financial institutions of our country can obtain the first information about the monetary policy, so as to strengthen the ability of the financial institutions to deal with the business and deal with the risk, formulate the financial investment products suitable to the monetary policy in time, and plan the strategic development direction of the financial institutions in the future. Secondly, financial institutions must integrate national monetary policy with their own strategic decisions, so as to achieve the optimization of internal strategic management of financial institutions under the new monetary policy. On the basis of the new monetary policy research and exploration, the relevant staff should also have a detailed understanding of the strategic management strategy within the financial institutions, and formulate the adjustment and transformation plan for the work content from the whole. Moreover, in the context of big data, the data of market economy is explosive, the amount of economic information to be processed by financial institutions is even larger, and the ability of data processing is more demanding. Financial institutions can use artificial intelligence and information technology to help workers complete the basic work of data collation, storage, classification and even primary analysis, which cannot only improve the efficiency of work, but also reduce the risk of operational errors. So that financial institutions can adapt to the environment as soon as possible under different monetary policies, ensure market competitiveness and avoid the risk of financial institutions to the greatest extent.

## **6. Conclusion**

To sum up, China's financial development and economic growth complement each other, and financial development promotes national economic growth, which affects the relevant national policy system and then the development of financial institutions. Therefore, the relevant departments of the state should promote the improvement of financial supervision, strengthen the communication between monetary policy formulation and financial institutions, and ensure the level of economic growth and the direction of financial development, so as to better promote the development of China's economic market.

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