

## **Capital Market Imperfection and Economic Growth**

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### **Abstract**

This paper explains adverse international capital flows and economic growth using a model with asymmetric information in the capital market. The capital markets in developing countries suffer more severely from asymmetric information than those in developed countries, which results in a lower rate of return on investment and more severe credit rationing. Thus, capital flows from developing to developed countries, lowering the growth rate of the developing countries.