

**Why do countries grow?**  
**An international comparison of growth**  
**rates after 1950**

Bachelorarbeit

in

Behavioral Finance

am

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PROF. DR. Thorsten Hens

Verfasser: Fabian Mark

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## **Abstract**

This paper observes the question why countries grow. Based upon the *International Test of Risk Attitudes* (INTRA) made by the University of Zurich, this paper runs a regression to find a multi-factor model that explains the differences of averaged growth rates between 45 countries all over the world. The current paper finds that several aspects contained in the INTRA study are significantly correlated with growth. While investments, impatience, trust and a high importance of having time for family and friends in an ideal job situation are positively correlated with growth rates, the relation between the importance of having the chance of job advancements at an ideal job and growth is negative. The positive correlations between growth and investments and growth and trust are broadly backed by the existing literature, while the finding about the time preference factor gives a new perspective on the subject. The two attributes of an ideal job also deliver new information about the topic of what determines growth rates.

## **Executive summary**

### **Problem set**

This paper tries to answer the question why nations grow. It analyzes per capita growth data from 1950 until 2007. As explanatory variables serve variables which are derived from the INTRA (International Test of Risk Attitudes) study, made by the University of Zurich, as well as an investment factor. Finally, growth is tried to be explained by risk aversion, time preference, different attitudes towards life in general and investments.

### **Methods**

The answers of the INTRA questionnaire are at first aggregated to a national level. Afterwards, this data is converted into input parameters for a multiple regression. There is one coefficient calculated for each question of the survey and for each country observed. Finally, all these explanatory factors are put into a multiple regression to explain a growth variable. The result of these statistical tests, a multi-factor model, is interpreted with the help of hypotheses formulated before the regression as well as by evaluating the found explanatory parameters of the multi-factor model on the basis of the existing literature.

### **Theoretical basis**

As the theoretical background for the evaluation of the risk behavior serves the knowledge of the Prospect Theory. It is used to convert the answers of the INTRA survey into input variables for the regressions. Further, there is a theoretical approach of defining growth presented, what gives a well-founded knowledge on the subject of growth.

### **Results**

The current paper found a multi-factor model which explains almost the half of the variances of cross-country growth rates. This model suggests positive correlations between growth rates and rates of time preference, investments, interpersonal trust and the importance of private life in an ideal job situation as well as a negative relation between growth and the importance of possibilities of job advancements at an ideal job. The influences of

investments and trust on growth are backed by the existing literature, while the relation between the attributes of an ideal job and growth rates deliver new ideas to the topic of defining growth. The positively correlated time preference factor stands in contrast with the current state of literature, what gives a new perspective on this subject and motivates further studies.