

**MIRIAN CHIMIRRI**

University of Sao Paulo, Brazil

**MARIA GUZMAN**

University of Sao Paulo, Brazil

**AQUILES KALATZIS**

University of Sao Paulo, Brazil

**LUIZ CASTRO**

University of Navarra, Spain

## **EFFECTS OF FINANCIAL DEVELOPMENT, FINANCIAL CONSTRAINTS AND CAPITAL CONTROL ON STOCKS RETURNS**

### **Abstract:**

The aim of this work is to examine the impact of financial development, financial constraints and capital control on stocks market returns. The research looks into stock returns of emerging and developed economies over the period of 2004-2016 by using data, both by firm-level and country level, from 88 developed and emerging countries. Furthermore, the KZ, WW and SA indexes were used to classified as being financially constrained and financially unconstrained and the level of capital control of each group of countries is interacted with financial constraints. We aim to determine the relationship between the variables used as the measurement (depth, access, efficiency and stability) of financial development of a country, the financial constraint and capital control and their relationship to the stock market returns. Previous research focusing on stock market returns have dealt with different influences affecting the stock returns; however, the literature examining the influence of capital control on stock return is scarce. Our results suggest that the extended Fama-French three-factor model including macroeconomic and financial development variables and considering the presence of financial constraints help in the understanding in their impact on asset pricing for emerging and developed countries alike.

### **Keywords:**

Asset Pricing; Macroeconomic Analyses of Economic Development; Capital Constrols; Financial Econometrics; Financial Markets.

**JEL Classification:** G12, O11, F38