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Individualism, democracy, and contract enforcement

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Individualism, Democracy, and Contract Enforcement

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Abstract

We examine a potential link between culture and financial development by considering culture's influence on contract enforcement regulation. Specifically, we investigate the role of individualism in determining the variation in enforcement costs across countries. Individualism positively and significantly relates to efficient contract enforcement, an association that is independent of a particular political system. Interaction effects, however, suggest that democracy magnifies individualism's influence on the contract enforcement efficiency. These results provide insight into how culture can shape financial outcomes. It further suggests that culture serves as a constraint on policymakers, as any given policy or formal institutional structure will function very differently depending on the cultural environment.

Keywords: Contract Enforcement; Culture; Financial Regulation; Individualism
JEL Classification: F55, O17, K12, Z10

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