ABSTRACT

The relationship between venture capital investments, innovation, and economic growth has received considerable attention in the finance literature. While the research specifies that there are associations between these variables, the majority of the research on venture capital investment focuses on the impact of venture capital investment on firm performance. This study focuses on the causal nexus between venture capital investments, innovation, and economic growth across the 19 European Economic Area (EEA) countries, namely Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, and the United Kingdom over the period 1989-2014. Specifically, the study first deploys dynamic panel data modelling to examine the determinants of both venture capital investments and innovation activities in these selected countries. The Granger causality test is subsequently applied for studying the causal nexus between venture capital investments, innovation, and economic growth. The empirical analysis finds that there exist inter-regional disparities in the availability of venture capital investments, innovation and economic growth in these EEA countries. The Granger causality test shows that both venture capital investments and innovation have substantial impact on economic growth. It also shows that both venture capital investments and innovation Granger cause each other. It is, therefore, necessary to have sufficient availability of both venture capital investments and innovation and their integration in these EEA countries for achieving higher economic growth in the European zone. The insufficiency of both venture capital investments and innovation brings in different policy implications in these European countries.

Keywords: Venture capital, Innovation, Economic growth, European economic area countries