

## **ABSTRACT**

Financial Development, as a perception is multifaceted which involves diverse aspects to it and thus a complete portrayal of the level of financial development can come through various measures or indices that would be able to capture the various dimensions attached to it in a consolidated manner. The study attempts to capture this multifaceted aspect by constructing an index of financial development for countries and this is carried out by analyzing financial development as a latent or an unobserved concept examined from the perspective of banking sector as well as the stock market. Allowing for the feedback effects from economic growth to the growth of the financial sector, the study used the approach of MIMIC to show that presence of threshold effects of private credit implied banking sector had a negative impact on the growth of a country while stock market had a positive impact on the economic growth. Using concordance analysis, presence of convergence in the rankings of the countries based on the constructed index was analyzed. Results for concordance showed convergence for the banking sector while no convergence was observed for the stock market. Thus, it was argued that financial development is a continuously evolving process. New dimensions are added to it every now and then and thus, to capture its true essence, it was important to consider all aspects to it.