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CULTURAL DYNAMICS AFFECTING URBAN ECONOMIC GROWTH: EVIDENCE FROM TURKISH ECONOMY

The purpose of this study is to investigate the effects of cultural dynamics on urban economic growth in Turkish economy. By employing confirmatory factor and regression analysis, it is found that focus on the future, secularism, wealth, rule of law, work ethic, individualism, religion, charity, relations to business environments and universities, and citizenry are the cultural factors which have significant influence on urban economic growth in Turkish economy. Accordingly, while the highest and the lowest positive impacts stem from individualism and religion; the highest and the lowest negative impacts arise from citizenry and secularism, respectively.

Keywords: culture; cities; economic growth; Turkish economy; confirmatory factor analysis.

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ВПЛИВ КУЛЬТУРНИХ ЗМІН НА РОЗВИТОК ЕКОНОМІКИ МІСТ: НА ПРИКЛАДІ ТУРЕЦЬКОЇ ЕКОНОМІКИ

У статті досліджено вплив культурних змін на розвиток економіки міст на прикладі турецької економіки. Застосовуючи аналіз перевірного фактору і регресійний аналіз, виявлено, що такі культурні фактори значно впливають на розвиток економіки міст у Турції: зосередженість на майбутньому, секуляризація, багатство, верховенство права, робоча етика, індивідуалізм, релігійність, благодійність, зв'язки із бізнес-середовищем та університетами, громадянство. Відповідно, найбільший та найменший позитивний вплив мають індивідуалізм та релігія, найбільший та найменший негативний вплив – громадянство та секуляризація.

Ключові слова: культура; міста; розвиток економіки; турецька економіка; аналіз перевірного фактору.

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ВЛИЯНИЕ КУЛЬТУРНЫХ ИЗМЕНЕНИЙ НА РАЗВИТИЕ ЭКОНОМИКИ ГОРОДОВ: НА ПРИМЕРЕ ТУРЕЦКОЙ ЭКОНОМИКИ

В статье исследовано влияние культурных изменений на развитие экономики городов на примере турецкой экономики. Применяя анализ проверочного фактора и регрессионный анализ, обнаружено, что такие культурные факторы значительно влияют на развитие экономики городов в Турции: сосредоточенность на будущем, секуляризация, богатство, верховенство права, рабочая этика, индивидуализм, религиозность, благотворительность, связи с бизнес-средой и университетами, гражданство. Соответственно, наибольшее и наименьшее позитивное влияние имеют индивидуализм и религия, наибольшее и наименьшее негативное влияние – гражданство и секуляризация.

Ключевые слова: культура; города; развитие экономики; турецкая экономика; анализ проверочного фактора.

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1. Introduction. Assuming all the other factors fixed, the single term for increasing owned income and welfare is to set a sustainable economic growth performance. The theories of economic growth (e.g., Domar, 1946; Harrod, 1948; Solow, 1956; Romer, 1986; Lucas, 1988; Romer, 1990; Barro, 1990) had always investigated the factors which basically conduct macroeconomic growth. However, it is clear that sustainable growth cannot be accomplished by only using macrobased growth dynamics. Hence, researchers started to take these dynamics into account in a micro perspective.

Cities and city-based growth dynamics are one of the most important strands of this perspective. The Jacobs's (1969) idea that, while a dynamics which causes economic growth at the national level does not always hold the same importance for a city, but a dynamics which is important for growth performance of a city is always as important as for the country which hosts that city, attracted the economists to deal with the studies which investigate the role and the growth dynamics of cities in the economic growth process of nations. These studies can be divided into two groups. The first one consists of the studies which conceptually analyze the role and the growth dynamics of cities in the economic growth process.

Hoselitz (1953, 1955) was the first to explain the role of cities in the economic growth process of developing and developed countries. He stated they have a very important positive role in the economic growth process of nations.

Although it is not the first one, the major attempt to investigate the role of cities in economic growth process was made by Jacobs (1969) who defined the cities as the engine of economic growth. A similar framework was generated by Friedman (1969), Ragan and Trehan (1998), Quigley (1998) and Duranton (2000). The common idea in these studies is that since cities are important centers of knowledge production, productivity level is always higher. This is the dynamic progress which makes the cities the engine of economic growth.

With his pioneering study, Lucas (1988) is one of the most important researchers who dealt with the role of cities in the economic growth process. He stated that cities are like the nucleus of an atom. The role which is undertaken by cities for economic growth is similar to the role which is committed by exogenous human capital for macroeconomic growth.

The second group of the studies empirically analyzed the role and the growth dynamics of cities in the economic growth process. Sveikauskas (1975) proved that larger cities are important for national economic growth in the US. Similarly, Clark and Stabler (1991) showed there is a positive relation between the size of city and real income in Canada.

Glaeser et al. (1992, 1995) tried to find the growth dynamics of cities in a the US. The findings revealed that while labor, geography, average schooling rate above 5 years, urban diversity and health infrastructure are associated with higher economic growth rates; there is negative relationship between local specialization, unemployment rate, crime level, traffic congestion, average schooling rate below 5 years and cities' economic growth rates. De Long and Schleifer (1993) analyzed the growth performance of cities in Europe and argued that considering the last 800 years the growth performance of cities which are governed by monarchy is worse than the cities which are governed by feudalism. Cheshire and Carbonaro (1996) investigated the growth

dynamics of 118 urban areas in Europe and found that while there are positive relations between city based economic growth and the European Union integration process, employment share of agriculture, population growth, R&D activities and last growth performance of considered areas; employment share of manufacturing, historic effects of coal industry, historic effects of harbours and population density negatively affect urban economic growth. Eaton and Eckstein (1997) analyzed the growth dynamics of urban areas in France and Japan. The findings revealed that the basic dynamic behind the economic growth performance of urban areas in these countries is human capital.

As argued by Granato et al. (1996: 608), a society's economic and political institutions are not the only factors which determine economic development; cultural factors are also important. In addition, Barro (2002: 135) mentioned that most of the studies which investigate the determinants of long-run economic growth only dealt with macroeconomic and qualitative dimensions and ignored the cultural dimension of economic growth. The same situation holds for the city-based economic growth studies too. However, since the 'hard factors' such as economic structures, labour costs and property prices failed to explain the economic growth performances (Danielzyk and Wood, 2001: 69), as referring to the beliefs, attitudes, and values that bear on economic activities of individuals, organizations, and other institutions, culture is one of the most important dynamics which orientates the economic life in cities. In this regard, the aim of this study is to find out cultural dynamics affecting economic growth in Turkish cities.

2. Literature Review. The first systematic attempt to analyze the relationship between culture and economic development was made by Max Weber (1904) who argued that cultural endowments which stem from strong religious beliefs could facilitate economic performance and the basic dynamics which constituted the capitalism in northern Europe, as transforming attitudes to economic activity and wealth accumulation, is the Calvinist doctrine of predestination (Protestant work ethics). After Weber's work, the approach that culture represents a key source for producing economic flows, income and employment' became one of the basic ideas of Cultural Economics (Herrero et al., 2006: 41) and attracted economists to deal with this issue.

There are two lines of studies which investigate the effects of culture on economic development. The first line consists of the studies which take the issue into account at the national level. These studies can also be divided into two subgroups. The first subgroup of these studies mainly focused on the secular dimension of the culture. For instance, Hofstede (1980) investigated the effects of individualism, masculinity, power distance and uncertainty avoidance on economic growth performance of developed countries and found that only individualism has positive growth effects. Franke et al. (1991) hypothesized that differences in cultural values, rather than in material and structural conditions such as education, population growth, nutrition, capital investment, and technological innovation, are ultimate determinants of economic growth and, by employing cultural dynamics as dependent variables, concluded that more than 50% of international differences in economic growth rates are explained by the culture. Granato et al. (1996) designed an endogenous growth model with two cultural variables and showed that this kind of growth model is relatively successful at explaining economic growth to a model which separately includes econom-

ic or cultural variables. Khan et al. (2010) examined the effects of cultural values on economic growth of Asian countries and concluded that while cultural attitudes to trust, respect and self-determination have positive impact on economic growth, cultural attitudes concerning obedience are found to be negatively associated with economic growth.

The second subgroup of the studies mainly dealt with the religion dimension of the culture. For example, Landes (1998) tested Weber's idea and concluded that Weber was right: cultural factors are one of the keys which explain intercountry differences in terms of economic development. Barro and McCleary (2003) considering 59 most developed countries, investigated the link between religion (i.e., attendance of mosques, churches etc.) and economic growth and found that Hinduism, Islam, Orthodox Christianity, and Protestantism negatively affect per capita income growth relative to Catholicism. Sala-i Martin et al. (2004) proved that, in a larger sample of 88 countries, there is a positive relation between religion (in terms of Islam and Confucianism) and per capita income growth. Finally, Noland (2005) analyzed the relationship between religion and economic performance using cross/within-country regressions. The results showed that Islam promotes economic growth.

The second line of the studies, which we try to expand, dealt with the effects of culture on economic development at city level. However, the main focus of these studies is cultural diversity (i.e., population diversity). For instance, Sassen (1994) examined global cities such as London, Paris, New York, Tokyo and their strategic role in the development of activities that are central to world economic growth and stated that key feature of these cities is the cultural diversity of their populations. Ottaviano and Peri (2005, 2006) investigated the impact of cultural diversity on the economic life in the US cities and revealed there is a positive relationship between cultural diversity and economic performance of urban centers.

There is only one paper, differently from the studies above, which tests the relation between culture which is measured by another feature than population diversity and economic growth at the city level. Blum and Dudley (2001) analyzed the relation between religious beliefs and long-run economic growth considering 90 cities from Northern Europe and 226 cities from Southern Europe. The results showed that, *ceteris paribus*, urban economic growth was not rapid in the North than in the South, that is Weber's idea is not valid for the case of urban Europe.

This study differs from previous studies, which investigated the effects of culture on city level economic growth, in several respects. First, the previous studies incorporated only one dimension of culture (e.g., population diversity or religion). In this study, 11 dimensions of culture assumed to be having effects on city level economic growth were taken into account. Second, the effects of cultural dynamics on city level economic growth in Turkey have never been studied before. Hence, this paper aims to fulfill this gap and contribute to the empirical literature.

The rest of the paper is organized as follows: the next section explains the sample and the data collection procedure. Section 4 outlines the model and methodology. Section 5 presents the results. Finally, Section 6 concludes.

3. Sample and Data Collection Procedure

Sample. In this study, sampling consisted of assemblymen working at the chambers of commerce and industry in Turkish cities. The selected cities are the first two

of those which produce the highest real GDP in 2001 prices in their geographical region. These are Ankara and Kayseri from Central Anatolia Region, Trabzon and Samsun from Black Sea Region, Istanbul and Kocaeli (Izmit) from Marmara Region, Izmir and Manisa from Aegean Region, Adana and Mersin (Icel) from Mediterranean Region, Erzurum and Malatya from Eastern Anatolia Region, and Gaziantep and Diyarbakir from Southeastern Anatolia Region³.

The data for the survey were obtained by interviewing 1320 assemblymen from 14 cities. The reason for choosing assemblymen as the sample is that, in order to determine the cultural dynamics which are assumed to be having significant effects on economic growth performance of considered cities, it is necessary to interview all the agents who have economic activities in those cities. But, since it is almost impossible to interview all the agents in terms of time and money, assemblymen who are representing all occupational groups (all economic agents) in the chambers, and because being democratically elected, who are assumed to be reflecting the same cultural values with most of the economic agents, were selected.

During the process of the survey, CATI (computer aided telephone interview) technique was used to distribute the questionnaires to 1320 assemblymen. After eliminating the questionnaires which were annulled or not returned, we were left with the final sample of 483 respondents. The response rate is 36.6% (483 valid questionnaires).

Data collection procedure. Grondona (2000) and Harrison (2000) each generated typologies of cultural dynamics which are assumed to be affecting economic growth, and which are the basis of the present analysis. The combination of these typologies yielded 7 cultural dynamics which are assumed to be positively affecting economic growth: individualism, secularism, focus on the future, wealth, work ethic, rule of law, and education. These factors were quantified by employing a questionnaire, which was first designed by Duroy (2003), based on World Values Survey (WVS) (1995-1997). In addition, considering the cultural structure of Turkish people, 4 extra cultural dynamics: religion, charity, citizenry, and relations to business environments and universities (henceforth relations), which are assumed to be directing economic activities of the agents were added. In the aggregate, the final questionnaire consisted of 50 items, scored on a 5-point Likert scale with an agree/disagree continuum (1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, 5 = strongly agree). Furthermore, the questionnaire includes 5 more items used for determination of the characteristics of respondents and 3 extra items – for determination of the dependent variable (i.e., economic growth rate of a considered city).

4. The Model and Methodology. In this study, the effects of cultural dynamics on economic growth in Turkish cities were analyzed by employing a reduced form of growth equation used by Duroy (2003). The model is as follows:

$$y_i = \beta_1 + \beta_2 CD_i + \varepsilon_i,$$

where y_i is the growth rate of GDP per capita of a city i , CD_i is each cultural dynamic of city i , and ε is the error term.

³ There are 81 cities in 7 geographical regions in Turkey. The total GDP of Turkish urban economy (sum of 81 cities' GDP) is 178,4 billion Turkish Liras in 2001 prices and these 14 cities produced 57.3% of total GDP on their own, that is 102,2 billion Turkish Liras.

To estimate the model above, the linear regression technique based on OLS estimator was utilized. The model was estimated for each dynamics, separately. The diagnostic check of the estimation was carried out by F-statistics for the significance of the whole model, probability of T-statistics for the significance of coefficients, Durbin-Watson test and the probability of Breusch-Godfrey LM test for serial correlation, and White test for heteroscedasticity. In case of serial correlation and heteroscedasticity, the AR and the White correction methods were implemented.

In order to implicate the survey data to regression analysis, the items of the questionnaire should be gathered into a factor (i.e. dynamics). In this study, since the items have already assembled into the factors, confirmatory factor analysis (CFA) based on maximum likelihood estimation was used for proving the correct distribution⁴. Joreskog ve Sorbom (1993) stated that CFA is one of the most important techniques which facilitates the development of scaling models.

The CFA does not test the individual reliability of each factor for the analysis, but presents the reliability of the whole sample. There are several fit indices which are used for evaluation of the reliability of scaling model in CFA. In this study, 7 different fit indices were employed for reliability of the developed scaling model. These are root mean square error of approximation (RMSEA), non-normed fit index (NNFI), comparative fit index (CFI), standardized root mean square residual (SRMR), normed chi-square (NCS), goodness of fit index (GFI) and adjusted goodness of fit index (AGFI). In addition, although CFA does not test the reliability of each factor, the Cronbach's Alpha was utilized for each factor reliability evaluation.

5. Results

Factor analysis. In order to prove the correct distribution of the items among the factors, multi-rotated CFA was applied to the data. Table 1 shows the results in terms of the 1st, 6th and 11th rotations⁵.

The first rotation revealed that the 5th item under work ethic, 1st and 3rd items under religion, 1st, 3rd and 4th items under rule of law, and 4th and 5th items under secularism have statistically insignificant coefficients and therefore they should be excluded from the factor analysis. In addition, fit indices except RMSEA and NCS proved that the scaling model is not reliable as a whole. Hence, the insignificant items were excluded and the next rotation was executed.

The factor analysis was pursued until all the items had significant coefficients and fit indices showed the reliability of the scaling model as a whole. At the end of the 11th rotation, it was clear that all the coefficients were statistically significant and all the fit indices supported the reliability of the scaling model.

Table 1. The results of the factor analysis

Items	Significance level (t-statistics*)		
	1st Rotation	6th Rotation	11th Rotation
Work ethics 1	17.98	14.65	13.98
Work ethics 2	18.82	18.57	19.15
Work ethics 3	14.25	13.92	13.92
Work ethics 4	-4.14	-4.39	-4.52

⁴ Since the factors of focus on the future and education consist of one item, they are not included in the factor analysis.

⁵ Other rotation results are available upon request.

The End of Table 1

Items	Significance level (t-statistics*)		
	1st Rotation	6th Rotation	11th Rotation
Work ethics 5	1.13*	---	---
Work ethics 6	11.48	---	---
Work ethics 7	7.83	7.82	7.84
Individualism 1	18.94	12.41	12.25
Individualism 2	11.17	9.16	8.60
Individualism 3	2.25	2.00	---
Individualism 4	17.54	11.97	11.90
Individualism 5	7.66	7.16	6.52
Individualism 6	5.67	5.61	4.59
Individualism 7	9.72	8.47	8.29
Individualism 8	3.19	3.25	3.47
Religion 1	1.94*	---	---
Religion 2	-12.52	12.44	12.46
Religion 3	-1.51*	---	---
Religion 4	-19.28	19.06	19.08
Religion 5	-19.73	19.85	19.86
Charity 1	6.18	6.76	7.04
Charity 2	10.38	14.75	14.91
Citizenry 1	7.08	6.93	6.90
Citizenry 2	6.44	6.17	6.12
Rule of law 1	-0.15*	---	---
Rule of law 2	3.05	-2.16	-3.47
Rule of law 3	0.95*	---	---
Rule of law 4	1.23*	---	---
Rule of law 5	-16.21	16.23	15.05
Rule of law 6	-18.67	18.99	13.44
Rule of law 7	-16.59	16.53	11.70
Rule of law 8	6.33	11.76	10.95
Relations 1	11.55	5.59	5.67
Relations 2	8.96	6.12	6.32
Relations 3	14.87	14.96	15.04
Relations 4	15.58	15.97	15.97
Secularism 1	10.75	10.81	11.14
Secularism 1	12.66	12.84	13.13
Secularism 2	-2.34	-2.53	-2.63
Secularism 3	1.69*	---	---
Secularism 4	-0.46*	---	---
Secularism 5	10.37	10.63	-2.63
Secularism 6	7.69	7.68	7.57
Wealth 1	14.40	3.58	4.08
Wealth 2	22.45	22.39	21.61
Wealth 3	15.92	16.03	16.10
Wealth 4	21.60	21.85	22.25
Wealth 5	6.39	3.97	4.07
<i>Fit indices</i>			
RMSEA	0.057	0.041	0.023
NNFI	0.890	0.950	0.980
CFI	0.900	0.960	0.980
SRMR	0.082	0.048	0.042
NCS	2.558	1.796	1.246
GFI	0.810	0.880	0.920
AGFI	0.790	0.860	0.900

* CFA assumes that t-statistics below 1.96 in absolute value refer to the insignificant coefficient.

As mentioned above, the CFA does not test the individual reliability of each factor. Table 2 shows the estimated Cronbach's Alphas for each factor. Findings revealed that the estimated values are all bigger than 0.60 and this is an adequate result for individual reliability of the factors⁶.

Table 2. The individual reliability of each factor

Factors	Cronbach's Alpha
Work ethics	0.638
Individualism	0.712
Religion	0.889
Charity	0.743
Citizenry	0.667
Rule of law	0.627
Relations to business environments and universities	0.746
Secularism	0.615
Wealth	0.819

The OLS estimation. After proving the whole and individual reliability of the factors, the effects of cultural dynamics on city-based economic growth in Turkey were estimated. Table 3 shows the findings in terms of coefficients and diagnostic check.

Table 3. The results for the estimation

Factors	Dependent variable: growth rate of GDP per capita of city <i>i</i>					
Focus on the future	0.248 (0.00)					
Secularism		-0.298 (0.00)				
Education			0.035 (0.27)			
Wealth				0.100 (0.03)		
Rule of law					0.125 (0.08)	
<i>Diagnostic checki</i>						
F-stat	68.631 (0.00)	29.115 (0.00)	1.203 (0.27)	4.476 (0.03)	2.970 (0.08)	
White	0.959 (0.61)	2.718 (0.25)	1.889 (0.38)	4.426 (0.11)	0.597 (0.74)	
DW / LM	1.82 / (0.06)	1.89 / (0.26)	1.88 / (0.20)	1.88 / (0.20)	1.89 / (0.25)	
Work ethics	0.153 (0.09)					
Individualism		0.324 (0.00)				
Religion			0.056 (0.00)			
Charity				0.097 (0.08)		
Relations					0.165 (0.02)	
Citizenry						-0.335 (0.00)
<i>Diagnostic checkii</i>						
F-stat	3.388 (0.06)	13.605 (0.00)	2.937 (0.08)	2.945 (0.08)	6.249 (0.01)	47.978 (0.00)
White	10.189 (0.00)	0.920 (0.63)	13.043 (0.00)	8.626 (0.02)	9.723 (0.00)	0.672 (0.71)
DW / LM	1.88 / (0.21)	1.91 / (0.39)	1.88 / (0.22)	1.88 / (0.22)	1.90 / (0.31)	1.87 / (0.18)

* Numbers in parentheses are p-values.

The diagnostic check revealed that while there is no serial correlation for the estimated models; heteroscedasticity exists in the models for the effects of work ethics, religion, charity and relations. Hence, White correction method was implemented for the considered models. In addition, F-statistics and the probability of T-statistics proved that all the models and the coefficients except education are statistically significant.

⁴ Although there is no consensus for the value of Cronbach's Alpha, 0.60 is the minimum level which is accepted for reliability in social sciences (Hair et al., 2003; Ngai et al., 2004; Birasnav and Rangnekar, 2009).

According to the findings, while there are positive relations between city based economic growth and focus on the future, wealth, rule of law, work ethic, individualism, religion, charity and relations to business environments and universities; secularism and citizenry are the cultural factors which negatively affect city based economic growth in Turkey. The highest and the lowest positive impacts stem from individualism and religion, and the highest and the lowest negative impacts arise from citizenry and secularism, respectively. No significant relation is found between education and city-based economic growth.

6. Conclusion. The new trend in the empirical literature on economic growth is to deal with the microlevel growth studies which aim to explain the effects of non-traditional dynamics on economic growth. This study aims to investigate the effects of cultural dynamics which are assumed to have important influences on urban economic growth in Turkey.

The findings reveal that the cultural dynamics which affect urban economic growth in Turkey are focus on the future, secularism, wealth, rule of law, work ethic, individualism, religion, charity, relations to business environments and universities, and citizenry. While secularism and citizenry have negative growth effects, others positively affect city-based economic growth in Turkey. Compared to the previous studies, the findings of the present study are consistent. Just like Hofstede (1980) and Franke et al. (1991) stated for the national level, individualism is a cultural factor which positively affects the city-based economic growth in Turkey. However, while secularism positively affects national economic growth according to Franke et al. (1991), in the present analysis secularism is found to be negatively affecting city-based economic growth. In addition, consistent with Granato et al. (1996), Sala-i Martin et al. (2004) and Noland (2005), and contrary to Blum and Dudley (2001), Barro (2002) and Barro and McCleary (2003); religion is a cultural factor which positively affects city based economic growth in Turkey. If citizenry is assumed to be referring to the antonym of diversity, our findings also support the results of Sassen (1994) and Ottaviano and Peri (2005, 2006) who concluded that diversity is a cultural factor which positively affects city-based economic growth.

Finally, in order to experience higher economic growth rates at the city level in Turkish economy, policy makers should provide economic agents to have positive expectations about the future, attenuate the propensity of secularism, improve the ideas about wealth, augment the reliance on rule of law, strengthen the attitudes to work ethics, raise the tolerance to individual activities, broaden the freedom for religious beliefs, support charity, eliminate the barriers which impede the relations to business environments and universities, and change the ideas and attitudes about citizenry. The fundamental problem is to choose the right policy and use it in right direction. This can be a potential research area for the future studies.

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