

Financial Structure and Economic Welfare: Applied General Equilibrium Development Economics

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Abstract This review provides a common framework for researchers thinking about the next generation of micro-founded macro models of growth, inequality, and financial deepening, as well as direction for policy makers targeting microfinance programs to alleviate poverty. Topics include treatment of financial structure general equilibrium models: testing for as-if-complete markets or other financial underpinnings; examining dual-sector models with both a perfectly intermediated sector and a sector in financial autarky, as well as a second generation of these models that embeds information problems and other obstacles to trade; designing surveys to capture measures of income, investment/savings, and flow of funds; and aggregating individuals and households to the level of network, village, or national economy. The review concludes with new directions that overcome conceptual and computational limitations.