

Distinguishing Constraints on Financial Inclusion and Their Impact on GDP, TFP, and the Distribution of Income

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February 25, 2020

Abstract

A general equilibrium model featuring multiple realistic sources of financial frictions is developed to study how different constraints interact in equilibrium. We highlight, distinguish, and evaluate their differential impacts and rich interactions. The economic impact of financial inclusion policies in an economy depends not only on which constraint is alleviated, but also on the tightness of other constraints. Policy instruments should target the most binding constraint, which likely varies across countries. Moreover, there are important tradeoffs between financial inclusion, GDP, and the distribution of income. The transitional dynamics also differ from those in steady states. Policy makers should consider both.

Keywords: Financial frictions; Occupational choice; Income distribution; Welfare; Transitional dynamics. (JEL: C54, E23, E44, E61, O11, O16, O57)

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