

Economic Development, Flow of Funds and the Equilibrium Interaction of Financial Frictions*

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Abstract

We use a variety of different data sets from Thailand to study not only the extremes of micro and macro variables but also within-country flow of funds and labor migration. We develop a general equilibrium model that encompasses regional variation in the type of financial friction and calibrate it to measured variation in regional aggregates. The model predicts substantial capital and labor flows from rural to urban areas even though these differ only in the underlying financial regime. Predictions for micro variables not used directly provide a model validation. Finally we estimate the impact of a policy counterfactual, regional isolationism.

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