

# Accepted Manuscript

Informal sector, regulatory compliance, and leakage

Soham Baksi, Pinaki Bose

PII: S0304-3878(16)30020-7  
DOI: doi: [10.1016/j.jdeveco.2016.03.008](https://doi.org/10.1016/j.jdeveco.2016.03.008)  
Reference: DEVEC 2063

To appear in: *Journal of Development Economics*

Received date: 13 October 2012  
Revised date: 21 December 2015  
Accepted date: 22 March 2016



Please cite this article as: Baksi, Soham, Bose, Pinaki, Informal sector, regulatory compliance, and leakage, *Journal of Development Economics* (2016), doi: [10.1016/j.jdeveco.2016.03.008](https://doi.org/10.1016/j.jdeveco.2016.03.008)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

# Informal Sector, Regulatory Compliance, and Leakage

Soham Baksi\* and Pinaki Bose\*\*

## Abstract

The paper models a vertically related formal and informal sector, and endogenizes the size and regulatory compliance status of the informal sector. When the formal sector can circumvent costly regulations by outsourcing polluting intermediate goods from the informal sector, stricter regulations increase (when the “composition effect” of regulation dominates its “scale effect”) or decrease total pollution, and may even have a non-monotonic impact. We identify conditions under which a partially compliant informal sector acts as a source of leakage, and examine implications for optimal enforcement policy. Further, we show that price discrimination by the formal sector, when it purchases the intermediate goods from the informal sector, can worsen regulatory compliance by the informal sector and lead to more pollution.

*JEL codes:* O17; Q56; K42

*Keywords:* Formal and informal sectors; Emission intensity reduction; Price discrimination; Regulatory compliance

---

\*Department of Economics, University of Winnipeg, Winnipeg, Canada R3B 2E9. Tel: 1-204-2582945, Email: s.baksi@uwinnipeg.ca (corresponding author)

\*\*Department of Economics, University of Manitoba, Winnipeg, Canada R3T 5V5. Tel: 1-204-4749274, Email: pinaki.bose@umanitoba.ca

Acknowledgements: We thank Amrita Ray Chaudhuri, two anonymous referees and the editor of this journal for valuable comments and suggestions. Soham Baksi gratefully acknowledges financial support for this research from the University of Winnipeg’s Board of Regents. The usual disclaimer applies.

Download English Version:

<https://daneshyari.com/en/article/5094340>

Download Persian Version:

<https://daneshyari.com/article/5094340>

[Daneshyari.com](https://daneshyari.com)