

Accepted Manuscript

Financial frictions and the rule of law

Ashantha Ranasinghe, Diego Restuccia

PII: S0304-3878(18)30454-1

DOI: [10.1016/j.jdeveco.2018.05.009](https://doi.org/10.1016/j.jdeveco.2018.05.009)

Reference: DEVEC 2235

To appear in: *Journal of Development Economics*

Received Date: 10 December 2016

Revised Date: 25 April 2018

Accepted Date: 8 May 2018

Please cite this article as: Ranasinghe, A., Restuccia, D., Financial frictions and the rule of law, *Journal of Development Economics* (2018), doi: 10.1016/j.jdeveco.2018.05.009.

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.



Financial Frictions and the Rule of Law

Ashantha Ranasinghe*
University of Manitoba

Diego Restuccia†
University of Toronto
and NBER

April 2018

ABSTRACT

Using cross-country micro establishment-level data we document that crime and lack of access to finance are two major obstacles to business operation in poor and developing countries. Using an otherwise standard model of production heterogeneity that integrates institutional differences in the degree of financial development and the rule of law, we quantify the effects of these institutions on aggregate outcomes and economic development. The model accounts for the patterns across establishments in access to finance and crime as obstacles to their operation. Weaker financial development and rule of law have substantial negative effects on aggregate output, reducing output per capita by 50 percent. Weak rule-of-law institutions substantially amplify the negative impact of financial frictions. While financial markets are crucial for development, an essential precondition to reap the gains from financial liberalization is that property rights are secure.

JEL: O1, O4.

Key Words: misallocation, establishments, financial frictions, rule of law, crime, micro data.

*Department of Economics, University of Manitoba. 501 Fletcher Argue Building, Winnipeg, MB, Canada. R3T 5V5. E-mail: ashantha.ranasinghe@umanitoba.ca.

†Department of Economics, University of Toronto. 150 St. George Street, Toronto, ON, Canada. M5S 3G7. E-mail: diego.restuccia@utoronto.ca.

Download English Version:

<https://daneshyari.com/en/article/7357556>

Download Persian Version:

<https://daneshyari.com/article/7357556>

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