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Finance and the Preservation of Wealth

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Abstract

We introduce the model of asset management developed in Gennaioli, Shleifer, and Vishny (“Money Doctors,” *Journal of Finance*, forthcoming 2015) into a Solow-style neoclassical growth model with diminishing returns to capital. Savers rely on trusted intermediaries to manage their wealth (claims on capital stock), who can charge fees above costs to trusting investors. In this model, the ratio of financial income to GDP increases with the ratio of aggregate wealth to GDP. Both rise along the convergence path to steady state growth. We examine several further implications of the model for management fees, unit costs of finance, and the consequences of shocks to trust and to the capital stock.

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