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Dual Financial Systems and Inequalities in Economic Development

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accumulation of collateral assets by entrepreneurs. This implies that the initial level of development as well as the initial distribution of wealth will determine the joint evolution of the real side of the economy and the financial system. Under certain conditions, two long-run steady-state equilibria exist: in the first one the economy stops growing and the banking system never successfully develops; in the second one the economy reaches a sustained growth rate and the informal sector asymptotically vanishes. The impact of the following policies is discussed: financial repression, micro-credit institutions and redistribution of assets.



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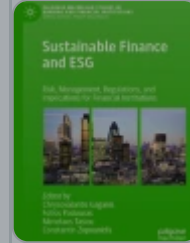
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