

Contents

Introduction	1
1 Financial Development and Corruption: A Review	9
1.1 Financial Development	10
1.1.1 Law and Finance - Theory and Criticism	10
1.1.2 Politics and Finance - Arguments and Evidence	14
1.2 Corruption	21
1.2.1 Definition and Measurement	22
1.2.2 State Intervention and Corruption	23
1.2.3 Rents and Corruption	30
1.2.4 Punishment and Corruption	32
1.3 Conclusions	36
2 Non-collusive Corruption and Access to Credit	39
2.1 Perception of Corruption	43
2.2 Set-up of the Basic Model	47
2.2.1 Assumptions	47
2.2.2 Static Equilibrium	51
2.3 Distributive Effects of Corruption	59
2.4 Competition and Corruption	65
2.5 Summary and Conclusions	70

2.6	Appendix	72
2.6.1	Proof of Lemma 2	72
2.6.2	Proof of Lemma 3	73
2.6.3	Proof of Lemma 4	74
3	Accumulation with an Imperfect Credit Market	77
3.1	Relation to the Macroeconomic Literature	80
3.2	Contract Enforcement and Entry Barriers: Evidence	83
3.3	Set-up of the Basic Model	90
3.3.1	Technology and Social Structure	90
3.3.2	Credit Market	92
3.3.3	Optimal Consumption and Aggregate Dynamics	97
3.4	Comparative Dynamic Analysis	100
3.4.1	Behavior of the Benchmark Economy	101
3.4.2	Comparative Dynamics and Welfare	102
3.4.3	Convergence and the Steady State	108
3.4.4	Simulation	110
3.5	Summary and Conclusions	113
3.6	Appendix	114
3.6.1	Proof of Lemma 5	114
3.6.2	Proof of Lemma 6	115
3.6.3	Proof of Lemma 7	116
4	Access to Credit and Efficiency	119
4.1	Set-up of the Basic Model	121
4.1.1	Assumptions	121
4.1.2	Investment Decision	122
4.1.3	Aggregate Equilibrium	123
4.2	Redistribution and Efficiency	124

CONTENTS

4.2.1	The Social Optimum	125
4.2.2	Redistribution and Aggregate Output	125
4.2.3	A Simple Example	128
4.3	Summary and Conclusions	129
5	Summary and Conclusions	133
	References	137