INGENIERÍA INDUSTRIAL
UNIVERSIDAD DE CHILE
50 años pensando el futuro

Abstract

Potential entrepreneurs require capital for investment in projects. They are differentiated by wealth and can abscond with the funds from a loan. In this setting, agents with little wealth are unable to fund their projects, those with intermediate levels of wealth can fund inefficiently sized projects and only wealthy entrepreneurs can attain the efficient firm size. We show that improvements in the legal framework for loans improves economic efficiency, by improving access to credit and by increasing the size of loans for projects. We also examine the effects of wealth redistribution. The effects depend on the aggregate wealth of the economy; in countries with low wealth, redistribution may reduce economic efficiency and GDP, while it may increase economic efficiency and GDP in a wealthy economy. Next, we consider an economy with labor and risky projects. We recover the main results of the simpler model, and we examine the effects of having priority of workers in bankruptcy. We show that it leads to conflicting interests between workers in large and small firms as well as conflicts between small and large entrepreneurs with respect to improvements in the financial system.