Annotated Bibliography:
Business Start-ups and SME Business Investment


In this paper, the authors use dynamic insurance data to distinguish moral hazard from dynamic selection on unobservables. In the presence of moral hazard, experience rating implies negative occurrence dependence: individual claim intensities decrease with the number of past claims. They also discuss econometric tests for the various types of data that are typically available. Finally, this article argues that dynamic data also enable researchers to test for adverse selection, even if it is based on asymmetric learning.


This article develops a model of growth and income inequalities in the presence of imperfect capital markets and analyses the trickle-down effect of capital accumulation. Three main conclusions result. First, when the rate of capital is sufficiently high, the economy converges to a unique invariant wealth distribution. Second, even though the trickle-down mechanism can lead to a unique steady-state distribution in the competitive market, there is room for government intervention: in particular, redistribution of wealth from rich lenders to poor and middle-class borrowers improves the production efficiency of the economy. Third, the process of capital accumulation initially has the effect of widening inequalities but in later stages it reduces them: in other words, this model can generate a Kuznets curve.


This paper studies theories which assert that joint liability lending is rich in implications for repayment rates. The authors exploit this fact to test four diverse models. They show that the models’ repayment implications do not always coincide. For instance, higher correlation of output and borrowers’ ability to act cooperatively can raise or lower repayment, depending on the model. Using data from Thai borrowing groups this article finds that repayment is affected negatively by the joint liability rate and social ties, and positively by the strength of local sanctions and correlated returns. Further, the relative fit of the adverse selection versus informal sanctions models varies by region.
This article models economic development as a process of institutional transformation by focusing on the interplay between agents' occupational decisions and the distribution of wealth. Because of capital market imperfections, poor agents choose working for a wage over self-employment, and wealthy agents become entrepreneurs who monitor workers. If inequality is sufficiently high, there will be trade in employment contracts; otherwise, there is either subsistence or self-employment. Thus, in static equilibrium, the occupational structure depends on distribution. The authors try to demonstrate the robustness of this result by extending the model dynamically and studying examples in which initial wealth distributions have long-run effects.


This article studies entrepreneurship using a theoretical model developed by the authors. Using various micro data sets, they find consistent evidence of the existence of capital constraints on potential entrepreneurs. For example, findings show the probability of self-employment depends positively upon whether the individual has ever received an inheritance or gift. Consistent with model predictions, the self-employed report higher levels of job and life satisfaction than those who are employees at firms.


In this study of the identification of general occupational choice models, the author focuses on the case in which agents earn income in their preferred occupation. He identifies the model using strictly weaker exclusion restrictions considering the case where the functions giving the income of a given occupation as a function of the unobservable and observable characteristic are fully general. Finally, he uses the method developed in the paper to study identification in a model of entrepreneurial choice with borrowing constraints.


This paper shows that in a dynamic model, the existence of financial constraints to the creation of businesses implies a non-monotonic relationship between wealth and entry into entrepreneurship: the probability of becoming an entrepreneur as a function of wealth is increasing for low wealth levels but it is decreasing for higher wealth levels. Using U.S. data, the author studies the qualitative and quantitative predictions of this model. The main finding is that the welfare costs of borrowing constraints are statistically significant and are mainly due to undercapitalized entrepreneurs.


This article studies whether an individual has to be wealthy before he or she can start a business or not. The authors find that liquidity constraints bind, and a would-be entrepreneur must bear most of the risk inherent in his venture. They show that wealthier people are more inclined to become entrepreneurs. They argue that even though wealthy people tend to make better entrepreneurs, the data reject this explanation. They show data which suggest strong liquidity constraints: capital is
essential for starting a business, and liquidity constraints tend to exclude those with insufficient funds at their disposal.


This study assesses the economic implications of land ownership security in rural Thailand. Using data from this country, the authors analyze several qualitative and quantitative characteristics and their incidence on land ownership security. The article also presents a conceptual model and literature review and is followed by separate discussions on the evolution of land rights in Thailand. A formal model of land acquisition and ownership security is presented to underlie the empirical discussions presented in subsequent chapters. In addition, the authors undertake an analysis of the benefits and costs of land titling. Finally, this study demonstrates and concludes that land ownership security in Thailand has a substantial impact on farmers’ agricultural performance.


The objective of this paper is to assess both the aggregate growth effects and the distributional consequences of financial liberalization as observed in Thailand from 1976 to 1996. A general equilibrium occupational choice model with two sectors, one without intermediation and the other with borrowing and lending, is taken to Thai data. Findings include the following: first, without an expansion in the size of the intermediated sector, Thailand would have had a lower growth rate, high residual subsistence sector, and non-increasing wages, but lower inequality. Second, the financial liberalization brings welfare gains and losses to different subsets of the population. Third, foreign capital has no significant impact on growth or the distribution of observed income.


This paper presents a model where both the extent of financial intermediation and the rate of economic growth are endogenously determined. Financial intermediation promotes growth because it allows a higher rate of return to be earned on capital, and growth in turn provides the means to implement costly financial structures. In this view, financial intermediation and economic growth are inextricably linked. The model generates a development cycle similar to the Kuznets hypothesis. In particular, in the transition from a primitive slow-growing economy to a developed fast-growing one, a nation passes through a stage where the distribution of wealth across the rich and poor widens.


This paper explores the robustness of the essential economic conclusions of the Roy model of self-selection and income inequality to relaxation of its normality assumptions. Using a simple logarithmic version of the model, the authors reproduce most of its main results. In particular, they show that in a Roy economy, random assignment is unequal and Pareto inefficient. The authors consider nonparametric identifiability of latent skill distributions with cross-section and panel data. Their analysis proves nonparametric identifiability is appropriate for the competing risks model.

In this paper, the authors examine survival rates of entrepreneurial enterprises and their growth, conditional on surviving. In particular, they focus on whether liquidity constraints increase the likelihood of entrepreneurial failure. They theorize that if entrepreneurs cannot borrow to attain their profit-maximizing levels of capital, then entrepreneurs with substantial personal financial resources will be more successful than those without. Examining the data from a group of sole proprietors who received substantial inheritances, the authors find that their behavior are consistent with the notion that liquidity constraints exert a noticeable influence on the viability of entrepreneurial enterprises.


This paper uses non-parametric, reduced form and structural techniques to distinguish the micro-economic foundations of two models of growth with increasing inequality using new data from rural and semi-urban households in Thailand. The authors estimate a limited commitment model and a moral hazard model. Both models emphasize the role of occupational choice and financial constraints. The authors show evidence that the dominant source of credit market imperfections varies with wealth. For example, for poorer households limited commitment is the dominant concern. They also find that as wealth increases moral hazard gains importance.


This paper uses variation in policies and institutional characteristics to evaluate the impacts of village-level microfinance institutions in rural Thailand. The authors use policies related to the successful/unsuccessful provision of services as exogenous variation in effective financial intermediation. They find that institutions can promote asset growth, consumption smoothing and occupational mobility, and can decrease reliance on moneylenders. The authors find it surprising that much-publicized policies such as joint liability, default consequences, or repayment frequency had no measured impacts.


This paper considers a heterogeneous agents model of occupational choice with moral hazard under three financial contract regimes differing in their degree of financial intermediation. Using maximum likelihood estimation and statistical model comparison methods, the author finds evidence that more advanced financial contract regimes allowing for borrowing and/or insurance provide better fit with data from Thailand as compared to more restrictive ones. In addition, augmenting the contracts with wealth-pooling lottery redistribution arrangements improves further the explanatory power of the model. The author also proposes a new numerical solution technique for incentive constrained occupational choice models based on non-linear optimization.

This paper studies the effect of improved financial intermediation on the process of capital accumulation by augmenting a standard model with a general contract space. With the extra contracts, intermediaries endogenously begin using roscas, or rotating savings and credit associations. These contracts allow poor agents, previously credit rationed, access to credit. As a result, agents work harder and total economy-wide output increases; however, these gains come at the cost of increased inequality. The author also provides sufficient conditions for the allocations to be Pareto optimal, and for there to be a unique invariant distribution of wealth.


This article examines the Small Business Innovation Research program (SBIR) in the U.S. Using a unique database, findings suggest that SBIR awardees grew faster than matched firms over a decade and were more likely to attract venture financing. The superior performance of awardees was confined to firms in regions with substantial venture capital activity and was particularly pronounced in high-technology industries. Multiple awards did not increase performance. According to the author, these results suggest that awards played out an important role in certifying firm quality, but also that distortions of the award process do occur.


This paper characterizes an equilibrium development process driven by the interaction of the distribution of wealth with credit constraints and the distribution of entrepreneurial skills. When efficient entrepreneurs are relatively abundant, a “traditional” development process emerges in which the evolution of macroeconomic variables accord with empirical regularities and income inequality traces out a Kuznets curve. In addition, if instead, efficient entrepreneurs are relatively scarce, the model generates long-run “distributional cycles” driven by the endogenous interaction between credit constraints, entrepreneurial efficiency and equilibrium wages.


Using U.S. data, some researchers have found a strong effect of the level of assets on the probability of being self-employed, or perhaps evidence of liquidity constraints. In this paper, the authors follow up this line of research by applying the same methodology to French data to show that the empirical evidence is similar. The authors also develop a dynamic framework with uncertainty. The main theoretical prediction that can be drawn is that if the liquidity constraint is strong enough a future increase in the “entrepreneurial ability” of an agent, although raising expected future incomes, may induce her to lower her current consumption and raise her savings.


This article uses data from rural and semi-urban Thailand to examine how financial constraints affect entrepreneurial activity. Analysis using nonparametric and reduced form techniques indicates
that financial constraints play an important role in shaping the patterns of entrepreneurship in Thailand. In particular, wealthier households are more likely to start businesses. Wealthier households are also more likely to invest more in their businesses and face fewer constraints. The authors also provide evidence that financial constraints place greater restrictions on entrepreneurial activity in the poor Northeast compared to the more developed Central region.


This paper empirically examines how ties between a firm and its creditors affect the availability and cost of funds to the firm. The authors analyze data collected in a survey of small firms by the U.S. Small Business Administration. They find that the primary benefit of building close ties with an institutional creditor is that the availability of financing increases. They also find smaller effects on the price of credit. Attempts to widen the circle of relationships by borrowing from multiple lenders increases the price and reduces the availability of credit. The authors conclude that relationships are valuable and appear to operate more through quantities rather than prices.


This paper provides a simple framework showing that the extent of competition in credit markets is important in determining the value of lending relationships. Creditors are more likely to finance credit-constrained firms when credit markets are concentrated because it is easier for these creditors to internalize the benefits of assisting the firms. The article offers evidence from small business data in support of this hypothesis.


This paper develops a model with decreasing returns and first-best credit. In this setting the long-run interest rate and aggregate output are uniquely determined, and wealth dispersion among individuals or firms is irrelevant. The authors show that introducing credit rationing into the Solow model modifies these conclusions. Multiple stationary interest rates and wealth distributions can exist because higher initial rates can be self-reinforcing through higher credit rationing and lower capital accumulation. They find that aggregate output is higher in steady states with lower interest rates because credit is better allocated. The authors also show that short-run interest rate or distribution shocks can be self-sustaining and can have long-run effects on output through the induced dynamics of the wealth distribution and credit rationing.


In this paper, the authors develop a classical approach to model selection. Using the Kullback-Leibler Information Criterion to measure the closeness of a model to the truth, they propose simple likelihood-ratio based statistics for testing the null hypothesis that the competing models are equally close to the true data generating process against the alternative hypothesis that one model is closer. The paper also fully characterizes the asymptotic distribution of the likelihood ratio statistic under the most general conditions. Finally, the authors show that it is a weighted sum of chi-square
distribution or a normal distribution depending on whether the distributions in the competing models closest to the truth are observationally identical.


This paper presents procedures for estimating the parameters of a regulated firm’s production function which explicitly model the impact of the private information possessed by utility in the regulatory process. Using a parametric form for the utility’s production function, the author finds that optimal regulatory outcomes yield structural econometric models which can be estimated to recover the parameters of the regulated firm’s production function. These models are tested empirically for the California water utility industry, and the parameter estimates obtained are compared to those obtained from applying conventional cost-function estimation procedures. The estimates from these models are then used to compute the increased production costs and output reduction which result from the utility’s superior private information about its production process.