Banco de la República | Colombia
Somos el banco central de Colombia

# Informality, Saving and Wealth Inequality

Working Paper No. 873 Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Catalina Granda Franz Hamann

The informal sector is an extensive phenomenon in developing countries. While some of its implications have drawn considerable attention in the literature, one relatively unexplored aspect has to do with the saving patterns of workers and firms and how these might influence aggregate savings and wealth inequality. In this paper, we aim to fill that gap by examining both entrepreneurs' and workers' choices regarding whether to perform informally and regarding asset accumulation. Specifically, we build an occupational choice model wherein saving is primarily motivated by precautionary considerations. The model features labor and capital market segmentation, and is calibrated to replicate the saving rates, wealth inequality and composition of occupations across the formal and informal sectors of Colombia. Computational experiments further allow us to analyze the effects of highly debated formalization policies on wealth redistribution and promotion of saving and entrepreneurship. Alternative frameworks are finally considered.

The opinions expressed here do not necessarily correspond neither to the Banco de la República nor its Board of Directors.

Fuente: https://www.banrep.gov.co/en/borrador-873