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

Financial Inefficiency and Real Business Cycle in Colombia

Working Paper No. 127 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).

AUTHOR OR EDITOR Carlos Esteban Zea AUTHORS AND/OR EDITORS Carlos Esteban Zea
In a dynamic, stochastic, general equilibrium model, we explore the optimal response of the inhabitants of a closed economy to an inefficient ad hoc financial system that in its intermediation duty looses a fraction of agrégate savings which otherwise would become agrégate investment. The incidente over the cycle of shocks to average financial inefficiency and technology is analyzed, as well as the steady state welfare gain of a reduction in average financial inefficiency. The descriptive power of the model is assessed with Colombian data between 1970 and 1992. The results in the paper suggest that the model!s predictions are largely consistent with aggregate behaviour of the Colombian economy, making it possible to explore several issues of financial liberalization and deepening.