



Financial Inefficiency and Real Business Cycle in Colombia

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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 loses a fraction of aggregate savings which otherwise would become aggregate investment. The incidence 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.