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## **Financial Deepening, Inequality, and Growth: A Model-Based Quantitative Evaluation**

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### **ABSTRACT**

We propose a coherent unified approach to the study of the linkages among economic growth, financial structure, and inequality, bringing together disparate theoretical and empirical literature. That is, we show how to conduct model-based quantitative research on transitional paths. With analytical and numerical methods, we calibrate and make tractable a prototype canonical model and take it to an application, namely, Thailand 1976–96, an emerging market economy in a phase of economic expansion with uneven financial deepening and increasing inequality. We look at the expected path generated by the model and conduct robustness experiments. Because the actual path of the Thai economy is imagined here to be just one realization of many possible histories of the model economy, we construct a covariance-normalized squared error metric of closeness and find the best-fit simulation. We also construct a confidence region from a set of simulations and formally test the model. We broadly replicate the actual data and identify anomalies.