Payment Instruments, Finance and Development

Thorsten Beck†
Cass Business School, City, University of London
CEPR

Haki Pamuk‡
Wageningen University

Ravindra Ramrattan§
FSD Kenya

Burak R. Uras¶
Tilburg University

Tilburg University
European Banking Center

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Abstract
This paper studies the effects of a payment technology innovation (mobile money) on entrepreneurship and economic development in a quantitative dynamic general equilibrium model. In the model mobile money dominates fiat money as a medium of exchange, since it avoids the risk of theft, but comes with electronic transaction costs. We show that entrepreneurs with higher productivity and access to trade credit are more likely to adopt mobile money as a payment instrument vis-a-vis suppliers. Calibrating the stationary equilibrium of the model to match firm-level data from Kenya, we show significant quantitative implications of mobile money for entrepreneurial growth and macroeconomic development.

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‡E-mail: TBeck@city.ac.uk
§E-mail: haki.pamuk@wur.nl
¶Corresponding Author. E-mail: r.b.uras@uvt.nl

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