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# Market Failures and Misallocation

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## Abstract

I develop a method to measure and separate the production misallocation caused by failures in factor markets versus financial markets. When I apply the method to rice farming villages in Thailand I find surprisingly little misallocation. Optimal reallocation would increase output by less than 19 percent. By 2007 most misallocation comes from factor market failures. I derive a decomposition of aggregate growth that accounts for misallocation. Declining misallocation contributes little to growth compared to factor accumulation and rising farm productivity. I use a government credit intervention to test my measures. I confirm that credit causes a statistically significant decrease in financial market misallocation, but has no effect on factor market misallocation. (JEL O47, O16, E13)

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