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Payment Instruments, Finance and Development*

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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.

Keywords: Payment Technologies, Theft, Trade Credit, Allocations.
JEL Classification: D14; G21; O12; O16.

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§Before the completion of this paper, our dear friend and co-author Ravindra Ramrattan lost his life at the tragic Westgate Mall terrorist attacks in Nairobi, Kenya.

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