

# 導讀：Corruption, Firm Dynamics, and Distance to Frontier

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## What question are they trying to answer?

Recently, IMF published a new framework for "enhanced" engagement with countries on corruption; it's deemed important to know the effect of this framework has on every aspect. Additionally, whether or not judicial reforms targeting corruption is effective on its purpose or vice versa is both a theoretical and empirical problem. One of the approach took to study the issue is from the dynamic firm structure faced in the presence of corruption. Thus, following this approach, the paper want to study the macoeconomic impact of corruption through its impact on firm dynamics.

## Why should we care about it?

In the field of economics, corruption is deemed only an incentive problem that agents examine the pros and cons of being corrupted, and take the more beneficial action. Confronting this issue, it should be investigated first what effect of the presence of corruption has on individuals, firms, markets or even the global. It's vitally important to know whether or not corruption could make a system less efficient, grow slower or it actually has stable power over an organization. Today, there are empirical findings showing that higher incidence of bribery is associated with lower firm growth volatility, faster growth of capital and labor, and lower growth in labor productivity. Some theoritical models regard corruption is an endogenous entry barrier that protect incumbents or corruption can have positive growth effects if it helps entrepreneurs grow out of financial friction. This paper....

## What is the answer?

Under its theoretical framework, the results show corruption introduces static distortion, but, in the presence of financial frictions, could lead to a dynamic gain through faster capital accumulation. Secondly, the effectiveness of anti-corruption campaign depends on the stage of developement and financial capacity of non-corrupt firms.

## How did the author get to this answer?

The authors use two-period OLG households model as a framework with the presence of financial friction. In this model, productivity is exogenously given, and the economy is on the upward transition path towards steady state. In each market, young individuals can be entrepreneurs or workers, and incumbents and entrants engage in Bertrand price competition so that a entrepreneur with lower unit cost wins and push out incumbents, becoming monopoly. The authors construct several stages for an individual to compete in market. They finds out under this structure, corruption leads to a trade-off between capital accumulation and

productivity gain through firm entry. Secondly, capital accumulation is more important at early stage of development. Thirdly, corruption generates larger incumbents and smaller entrants, making firm entry more difficult over time.