

**STEG Virtual Course on  
"Key Concepts in Macro Development"**

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**Lecture 10: Applications to Development**

[Yongseok Shin \(Washington U. in St. Louis\)](#)

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**Q: Did you notice a difference between male or female, or entrepreneurs with families?**

A Typically, giving capital to female entrepreneurs has not had big impacts... it is tougher to increase female entrepreneurs' profitability (e.g., deMel, McKenzie, and Woodruff, 2008). My own sense is that female entrepreneurship is tied to labor market norms against women and women's desire to care for their family as well. So one place where impacts of giving capital to women have been seen are "ultra poor programs" in Bangladesh that gave women livestock and some training. Here they see increases in women's labor supply (Bandiera et al 2017)... At the macro level, we know nothing about gendered impacts.

**Q: How does one typically calibrate abilities of people to the data in such settings..? Or is this not even needed?**

A Often one makes some assumptions about the distribution -- say, about the form of the distribution. This has the potential to narrow the number of parameters and to have the parameters correspond to things that we observe in the data.

Typically, models of entrepreneurship have the result that productivity distributions influence firm size distributions, so we typically discipline models using the firm size distribution. The form of the distribution in this case is Pareto both for simplicity and to match the fact that firms size distributions are skewed with thick tails. The largest 10% of firms employ a much larger share of workers.

**Q: Why is the PE effect of microcredit on TFP negative: both (marginal) lower and higher productivity entrepreneurs would enter. Why is it that the former dominates the latter?**

A The financial friction is such that more productive entrepreneurs have greater access to capital in the status quo. Your access to capital depends on your collateral but also your revenues/cash flow. Moreover, over time there is a tendency for wealth and ability to be correlated (productive entrepreneurs accumulate wealth over time, and even before entry because they save to enter). For these reasons, microfinance tends to disproportionately relax constraints for marginal productivity entrepreneurs.

The presence of these necessity entrepreneurs makes that effect stronger. A lot of the poor entrepreneurs are credit constrained because the only reason they are entrepreneurs in the first place is because they lack labor market opportunities.

**Q: In the model on industrial policy discussed, focusing on SME and start-ups and temporary grants, which is the case for most EU funds, would address the possible negative effects of industrial policy?**

A Good point. In the paper by Yongs, I think that is correct. The problem is that you need subsidies to only be short term. From a political economy perspective, that might be challenging in other contexts though. Subsidized firms and industries tend to hold tight to them.

**Q: It wasn't until '74 and the Equal Credit Opportunity Act that women could open bank accounts without their spouses in the U.S. Women and minorities are still denied banking products today due to redlining and variable credit scoring. Why are we still using credit scores that financial institutions have the autonomy to create variables for including zip/area codes?**

A There is clearly a lot of path dependency here -- and a lot of scope for improvements in the governance of capital markets. The harder question, I think, is how to redress past inequity. Are there good ways to intervene today in recognition of the historic distortions that contributed to massive inequalities in asset ownership along dimensions of race and gender.

I should add... not only 'historic distortions,' because the redlining that you mention above is reproduced in many complex ways today, too... The form has perhaps changed, in the sense that explicit redlining is less important. but the de facto distortions remain.

Just a thought: I worry that machine learning techniques could exacerbate these things... even if you don't allow race, gender, or zip codes, machine learning tools could effectively replicate these patterns in very opaque ways.