
[Working Paper No. 831](#)

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

[Luz Adriana Flórez](#)

Publication Date:
Friday, 18 of July 2014

This paper contributes to the theoretical analysis of the informal sector in the search and matching framework. Building upon the work of Albrecht et al. (2009), where the informal sector consists of unregulated self-employment, I describe the search and matching equilibrium in an economy with an

informal sector where workers are risk neutral and the government can observe when a worker is formal and informal. In this case I solve the matching equilibrium by introducing three policies: unemployment benefits, a formal lump sum tax, and a job creation subsidy. I analyze the effects of these policies on unemployment rates, formal employment and informal employment. I show that these policies affect the incentives of workers to be formal or informal changing the composition of these two types of workers in the labor market.

The views expressed in the paper are those of the authors and do not represent those of the Banco de la República or its Board of Directors.