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UNTITLED:
A STUDY OF FORMAL AND INFORMAL PROPERTY RIGHTS
IN URBAN ECUADOR

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Note: Center Discussion Papers are preliminary materials circulated to stimulate discussion and critical comments.

Untitled:

A Study of Formal and Informal Property Rights in Urban Ecuador

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Abstract

In this paper we explore the substitutability of formal and informal property rights. We analyze new survey data from Ecuador, where households have both formal and informal claims to urban residential property. The latter come from a variety of sources, including the activity of a local boss, or organizer. We first develop a theory of the ability to sell or rent land in which a distinction is drawn between transferable property rights (e.g., title) and non-transferable claims (e.g., length of residence). We use this theory of transactions to show that the increase in price that follows the granting of title may be an overestimate of the households' utility gain. In our empirical work we find that the unconditional effect of granting title is to raise properties' value by 23.5%. However, we also find that informal property rights can substitute effectively for formal property rights, so the marginal effect of titling on the ability to transact and on prices can vary widely among communities and among households within a community. For example, the value of property owned by a newly established household with no adult males can increase by 46% with the acquisition of title. These findings suggest that titling programs should be targeted at young disorganized communities if they are to have much effect.

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