

Occupational Choice in Developing Countries: Self-Employment *versus* Wage Employment- A Conceptual Framework

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In existing theories, richer people get higher loans, become entrepreneurs and earn high, people at the middle of wealth distribution choose self-employment, and people who join wage employment have the least income. However, in developing nations, regular wage employment offers higher income than self-employment, and to justify these findings, a partial equilibrium model is developed. Given lack of collateral, occupational choices are based on human capital possession and capital availability. In this model, in a skill-based dual sector economy, self-employment generates lower income than regular wage employment with discriminatory tastes of employers having an influence on occupational choices as well.

I Introduction

Traditional neo-classical occupational choice models (Lucas 1978, Kihlstorm and Lattont 1979) focused on how individuals choose between entrepreneurship and employment as wage earners on the basis of their entrepreneurial abilities (Lucas 1978) or risk aversion (Kihlstorm and Lattont 1979). The initial wealth distribution was considered to be very vital in the process determining optimal occupational choices in these models. However, these models were mainly developed over the observed facts about occupational choices in the developed OECD countries, and thus, it is not possible to explain fully the nature of occupational choices made in the labour markets of developing economies. According to these neo-classical models, entrepreneurs or self-employed workers are at the top and workers in wage employment are at the bottom of the income distribution. According to Banerjee and Newman (1993), richer people get higher loan against the existence of high level of collateral, and become entrepreneurs and earn high. On the other hand, people who are at the middle of wealth distribution tend to receive smaller loans and largely become self-employed using low-scale production processes. People

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