A Theory of Economic Crime

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Abstract:

This paper develops the theory of financial crime by utilizing the general equilibrium work-leisure tradeoff model. The model assumes that an economy is populated by heterogeneous consumers, all at working age, in which some agents generate their income through illegal activities (stealing, fraud, robbing, etc.). The model is able to generate a crime labor supply function, which is function of utility elasticities of consumption elasticity and leisure and total time available for an illegal. The model also shows that the labor supply function of a legal reacts in opposite directions to loss in labor income and capital income. Next, the model introduces Arrow-Debreu securities to the model and develops the price of each illegal activity under uncertainty. The work contributes to the crime literature by (i) developing a theory of economic crime via utilizing microeconomic foundations of microeconomics, (ii) studying theoretically heterogeneous agents under general equilibrium, (iii) theorizing the price of a crime by introducing Arrow-Debreu securities to the model.

Keywords: Crime Theory, Work-Leisure tradeoff, General Equilibrium, Arrow-Debreu Securities.

JEL Codes: D73, K42, D81