Macro-Finance in the Long-Run

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• Huge rise in quantity and large fall in price of credit since about 1980. Why did this happen? What are its consequences?
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• Is credit financing the supply-side of the economy?
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• Is credit financing the demand-side of the economy?
• Where is long-run credit expansion coming from?
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Source: Mian and Sufi (WP, 2018).
What are the consequences of long-run credit expansion?
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<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
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<tbody>
<tr>
<td>\Delta i_t</td>
<td>-1.150***</td>
<td>-3.819***</td>
<td>-3.515***</td>
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<tr>
<td></td>
<td>(0.309)</td>
<td>(0.641)</td>
<td>(0.591)</td>
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<tr>
<td>\dot{i}_{t-1}</td>
<td>0.0842</td>
<td></td>
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<td></td>
<td>(0.050)</td>
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<tr>
<td>\Delta i_t \times \dot{i}_{t-1}</td>
<td>0.294***</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>(0.059)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>real \dot{i}_{t-1} (Clev)</td>
<td></td>
<td>0.179*</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>(0.079)</td>
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<tr>
<td>\Delta i_t \times real \dot{i}_{t-1} (Clev)</td>
<td></td>
<td>0.535***</td>
<td></td>
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<td></td>
<td></td>
<td>(0.120)</td>
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</table>
What are the consequences of long-run credit expansion?

Figure 8: Interest rate and debt capacity for industry leaders and followers
What are the consequences of long-run credit expansion?

- Equitable and balanced growth is extremely important - finance can no longer be the “shock absorber” due to liquidity traps and other maleffects of very low interest rates and high debt.

- Financial design matters as distribution matters. So need more risk-sharing across households.

- Wealth tax
Notes


5. Mian et al. (2017b), Baron and Xiong (2016)


References II


and, *House of debt: How they (and you) caused the Great Recession, and how we can prevent it from happening again*, University of Chicago Press, 2015.


and, “Inequality, Surplus Savings and Credit Creation,” 2018.


