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September 24, 1993

WP/93/72

Subject: Credit Markets and Stagnation in an Endogenous Growth Model

The paper circulated on September 22, 1993 as PPAA/93/13 should be numbered WP/93/72.

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WP/93/72

INTERNATIONAL MONETARY FUND

Research Department

Credit Markets and Stagnation in an Endogenous Growth Model

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September 1993

Abstract

This paper studies the effects that the inability of individuals to borrow against future income has on economic growth. The model assumes that human capital, which is accumulated through education, is the only factor of production. It is shown that liquidity constraints reduce growth. Further, in the presence of externalities that may induce two equilibria, it is shown that liquidity constraints not only reduce the rate of growth in the high-growth equilibrium, but can also make the low-growth equilibrium more likely to occur.

JEL Classification Numbers:

E21, O16, O41

1/ This paper was prepared for a special issue of *Revista de Análisis Económico* on Economic Growth, edited by Bill Easterly. I am grateful to Richard Agénor, Carlos Asilis, Bill Easterly, and an anonymous referee for valuable comments, and Catherine Fleck for editorial assistance. The views expressed in this paper do not necessarily represent those of the International Monetary Fund.

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