

Education, Borrowing Constraints and Growth

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Abstract

This paper studies the effects of educational borrowing constraints on economic growth and welfare. We consider a three-period-lived overlapping generations model in which individuals finance their educational expenditures by borrowing. We show that if the elasticity of human capital to educational expenditure is great enough, the relationship between the tightness of the constraints and the growth rate is inverted-U shaped when the constraints are binding. Moreover, when the constraints cease to be binding, the growth rate is constant. We also show that a relaxation of the constraints cannot be Pareto-improving even if the growth rate rises.

Keywords : Education; borrowing constraints; economic growth

JEL Classification: E21; O16; O41

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