Quantitative Analysis of Financial Constraints; Impacts of Mark-To-Market Accounting on Collateral Evaluation

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April 22, 2008

Abstract

Business cycles models of financial constraints typically replicate a sluggish and persistent dynamics in investment and output. However, the model's implication on the quantitative effects differs according to what kinds of assets are used as collateral and whether the collateral is evaluated at the mark-to-market or the historical cost accounting. The purpose of this paper is twofold. First, we evaluate quantitative difference between three models, the financially constrained model when land is used as collateral and is evaluated at the mark-to-market accounting, the financially constrained model when land is used as collateral and is evaluated at the historical cost accounting, and the financially constrained model with capital collateral. Secondly, we investigate which model fits well the evidence in Japan.

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