

Credit Market Imperfection and Goods Market Deregulation*

Atsushi Miyake[†]

Kazunobu Muro[‡]

January 21, 2016

Abstract

By introducing credit market imperfections into a monopolistic competition model, we study the effects of financial development and product market competition on the macroeconomic dynamics in an overlapping generations model. Differently from the standard monopolistic competition models in which the zero profit condition determines the number of firms, the credit constraint is a key factor to determine the quantity of firms in our economy. Financial market development facilitates finance to entrepreneurs and has an effect on the transition dynamics. Goods market deregulation gives rise to capital accumulation and increases the steady state value of capital.

Keywords: Borrowing constraint, Participation constraint, Financial development, Product market competition, Firm entry dynamics.

JEL classifications: E44 O11 O14

*The authors would like to thank Hideyuki Adachi, Toshitaka Fukiharu, Tamotsu Nakamura, and the seminar participants at Kwansai Gakuin University and Himeji.

[†]Faculty of Economics, Kobe Gakuin University. 518, Arise, Ikawadani, Nishi, Kobe, Hyogo, 651-2180, Japan. E-mail: miyake@eb.kobegakuin.ac.jp

[‡]Faculty of Department of Econoinformatics, Himeji Dokkyo University. 7-2-1, Kamiohno, Himeji, Hyogo, 670-8524, Japan. E-mail: muro@gm.himeji-du.ac.jp