Bubbles, Growth and the Imperfection of the Credit Market in a Two Country Model

Kyoto University
Ryosuke Shimizu*

Abstract

This paper extends Hirano and Yanagawa (2016) to an asymmetric two-country model and examines bubbles effects on each country's long-run economic growth rate. It shows that foreign bubbles have positive and negative effects on both countries growth rates and which effect dominates depends on the level of financial development in both countries. When the total effect of bubbles on the growth rate is positive, the burst of foreign bubbles leads to decrease in the growth rate in both countries. This implies that there is a positive corelation between foreign bubble and the domestic country's growth rate.

* Graduate School of Economics, Kyoto University. Research Fellow of Japan Society for the Promotion of Science.