

Advanced Macroeconomics I

ECON 525a - Fall 2009

Yale University

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Week 4

Introduction

- Credit frictions → amplification & persistence of shocks
- Two roles for capital
 - Factor of production
 - Collateral for loans
- Negative productivity shock
 - Reduces output; reduces value of collateral
 - Reduces borrowing, which reduces output further
 - "Multiplier" effects amplifies losses

Mechanism Summary

