

Financial segmentation and collateralized debt in infinite-horizon economies

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© 2018 Elsevier B.V. In this paper we address equilibrium existence in economies with default, long-term collateralized debt, and financial market segmentation. We first prove equilibrium existence in the finite-horizon case of our model, by adapting techniques recently applied in two-period economies with segmented financial markets. We then show that a competitive equilibrium exists for infinite-horizon economies when credit markets are composed of finite-lived contracts or infinite-lived contracts that can be refinanced over time. Finally, we show that if credit markets include infinite-lived contracts that cannot be refinanced, an equilibrium exists when per-period utility functions are either additive in at least one commodity or satisfy a substitution condition, which holds for unbounded per-period utility functions. We illustrate our contributions by providing examples of economies that conform with the assumptions of each of our equilibrium existence results.