PLEDGEABILITY AND CREDIT MISALLOCATION

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〈SUMMARY〉

This paper proposes a two-sector overlapping generations model with credit market imperfection in which each sector faces a different pledgeability. It may occur overinvestment to higher pledgeability sector and under-investment to lower pledgeability sector at the same time. In the long run, this credit misallocation reduces total output, as a result, even the over-investment sector may become under-investment. It should be noted that this credit misallocation depends not on total amount of pledgeability but relative amount of pledgeability for two sectors. Furthermore, this credit misallocation can be corrected by appropriate government fiscal policy.

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