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Creditworthiness and thresholds in a credit market model with multiple equilibria. (English)

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Summary: The paper studies creditworthiness in a model with endogenous credit cost and debt constraints. Such a model can give rise to multiple candidates for steady state equilibria. We use new analytical techniques such as dynamic programming (DP) with flexible grid size to find solutions and to locate thresholds that separate different domains of attraction. More specifically, we (1) compute present value borrowing constraints and thus creditworthiness, (2) locate thresholds where the dynamics separate to different domains of attraction, (3) show jumps in the decision variable, (4) distinguish between optimal and non-optimal steady states, (5) demonstrate how creditworthiness and thresholds change with change of the credit cost function of the debtor and (6) explore the impact of debt ceilings and consumption paths on creditworthiness.

MSC:

[91B62](#) Economic growth models

[49L20](#) Dynamic programming in optimal control and differential games

[90C39](#) Dynamic programming

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[creditworthiness](#); [default risk](#); [imperfect capital markets](#); [multiple equilibria](#); [asset pricing](#); [dynamic programming](#).

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