

# Author's Accepted Manuscript

Personal bankruptcy law, debt portfolios, and entrepreneurship

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PII: S0304-3932(15)00109-9  
DOI: <http://dx.doi.org/10.1016/j.jmoneco.2015.09.001>  
Reference: MONEC2799

To appear in: *Journal of Monetary Economics*

Received date: 28 December 2012  
Revised date: 2 September 2015  
Accepted date: 3 September 2015

Cite this article as: Jochen Mankart and Giacomo Rodano, Personal bankruptcy law, debt portfolios, and entrepreneurship, *Journal of Monetary Economics* <http://dx.doi.org/10.1016/j.jmoneco.2015.09.001>

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## 1 Personal Bankruptcy Law, Debt Portfolios, and Entrepreneurship

2 Jochen Mankart<sup>a,\*</sup>, Giacomo Rodano<sup>b</sup>3 <sup>a</sup>*Deutsche Bundesbank, Research Centre, Wilhelm-Epstein-Str. 14, 60431 Frankfurt, Germany*4 <sup>b</sup>*Bank of Italy, Via Nazionale 91, 00184 Rome, Italy*5 **Abstract**

Bankruptcy provides entrepreneurs with insurance against the financial consequences of failure at the cost of worsened credit conditions. Using a quantitative general equilibrium model of entrepreneurship, we show that the presence of secured credit in addition to unsecured credit substantially alters this trade-off. If secured credit is not available the optimal bankruptcy law is harsh since the negative effect dominates. If secured credit is available the optimal law is lenient since entrepreneurs rationed out of the unsecured credit market can still obtain secured credit, lowering the costs of worse credit conditions. We find significant welfare gains from reforming the law.

6 *Keywords:* Debt portfolio, Personal Bankruptcy, Entrepreneurship, Occupational Choice7 *JEL:* : M13, K10, O41, E20

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