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The Optimum Quantity of Debt for Japan

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## Highlights

- The present paper examines the effect of government debt on welfare for Japan.
- We calibrate a heterogeneous agent, incomplete markets model with idio-synchratic wage risk, a borrowing constraint, and endogenous labor supply to the Japanese economy.
- We find that the current level of government debt, 130% of GDP, is too high in terms of welfare.

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