

Inequality, Household Debt and Financial Instability: An Agent-Based Perspective

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Highlights

- We build an agent-based economy with peer effects and equity extraction.
- We analyse the impact of rising inequality on household debt and financial stability.
- A credit network emerges endogenously from households and banks interactions.
- Growing inequality implies greater expenditure cascades and home equity based loans.
- A higher default rate results in larger bad debt, a credit crunch and a recession.

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