

Accepted Manuscript

Mortgage Debt and Entrepreneurship

Philippe Bracke, Christian Hilber, Olmo Silva

PII: S0094-1190(17)30082-7
DOI: [10.1016/j.jue.2017.10.003](https://doi.org/10.1016/j.jue.2017.10.003)
Reference: YJUEC 3103

To appear in: *Journal of Urban Economics*

Received date: 10 May 2016
Revised date: 21 September 2017
Accepted date: 2 October 2017

Please cite this article as: Philippe Bracke, Christian Hilber, Olmo Silva, Mortgage Debt and Entrepreneurship, *Journal of Urban Economics* (2017), doi: [10.1016/j.jue.2017.10.003](https://doi.org/10.1016/j.jue.2017.10.003)



This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Mortgage Debt and Entrepreneurship*

Philippe Bracke[†]Christian Hilber[‡]Olmo Silva[§]

September 2017

Abstract

We study the link between mortgage debt and entrepreneurship using a model of occupational choice and housing tenure in a setting where loans are recourse—like in the UK and several US states. Our model shows that as long as the mortgage interest rate exceeds the risk-free rate: (i) mortgage debt diminishes the likelihood of entrepreneurship by amplifying risk aversion; and (ii) the negative relation between mortgage debt and entrepreneurship increases with income volatility. Our model also shows that the link between housing equity and entrepreneurship is ambiguously signed because of competing portfolio and wealth effects. We use the British Household Panel Survey to test and confirm the model predictions, and deal with unobservable heterogeneity employing three research designs — individual fixed effects, housing-spell fixed effects, and instrumental variables. A one standard deviation increase in leverage reduces the probability of entrepreneurship by 10-20 percent.

JEL Classification: L26, D14, G11, R21

Keywords: Entrepreneurship; mortgage debt; leverage; risk aversion.

*We thank Tom Davidoff, David De Meza, Rob Fairlie, Ed Glaeser (the editor), Bob Helsley, Erik Hurst, Josh Lerner, Henry Overman, Steve Pischke, Stuart Rosenthal, Yona Rubinstein, Todd Sinai, Will Strange, three anonymous referees, and participants at Brown University, Bank of England, Centre for Economic Performance (CEP/LSE), CESifo Summer Institute 2015, CREIP/Universitat Rovira i Virgili, EUI Alumni Conference in Economics 2013, Harvard Business School, Harvard Kennedy School, Israel Real Estate and Urban Economics Symposium 2014, IZA Workshop on Entrepreneurship Research 2011, IZA/CEPR European Summer Symposium in Labour Economics (ESSLE) 2012, Stirling University, LSE Economic Geography work-in-progress meetings, NARSC Annual Meetings 2011, SERC Annual Conference 2011, and University of Barcelona for their helpful comments and suggestions. We are responsible for any errors or omissions. The views expressed in this paper are those of the authors, and should not be taken as representative of those of the Bank of England or its Monetary and Financial Policy Committees.

[†]Bank of England and Spatial Economics Research Centre (SERC), London School of Economics.

[‡]Department of Geography and Environment and Spatial Economics Research Centre (SERC), London School of Economics.

[§]Department of Geography and Environment and Spatial Economics Research Centre (SERC), London School of Economics; and IZA Bonn. Corresponding author. Email: o.silva@lse.ac.uk

Download English Version:

<https://daneshyari.com/en/article/7370939>

Download Persian Version:

<https://daneshyari.com/article/7370939>

[Daneshyari.com](https://daneshyari.com)