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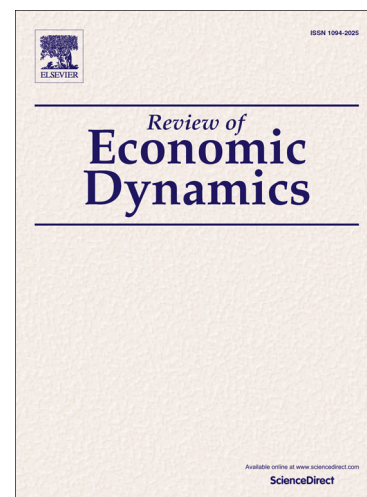
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Housing as Collateral, Financial Constraints, and Small Businesses*

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Abstract

What drove the synchronization between the small business sector and the housing market during the U.S. housing market boom and bust in the 2000s? I develop an occupational choice model in which house price fluctuations affect the entry-exit and expansion-contraction decisions of small business owners through the housing collateral channel. I perform an experiment in which a sequence of housing shocks constructed to replicate the observed housing market conditions in the 2000s are plugged into the calibrated model. The experiment shows that the synchronization is due mainly to the housing collateral effect.

JEL classification: J24, L26, R31

Keywords: Housing collateral; small business; entrepreneurship.

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