

# Accepted Manuscript

Dynamics of investment, debt, and default

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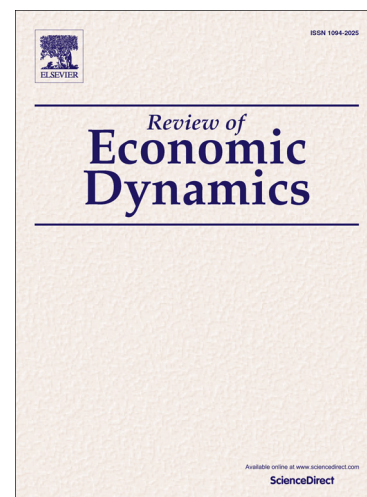
PII: S1094-2025(17)30064-9  
DOI: <http://dx.doi.org/10.1016/j.red.2017.07.007>  
Reference: YREDY 831

To appear in: *Review of Economic Dynamics*

Received date: 2 September 2014  
Revised date: 27 July 2017

Please cite this article in press as: Gordon, G., Guerron-Quintana, P.A. Dynamics of investment, debt, and default. *Review of Economic Dynamics* (2017), <http://dx.doi.org/10.1016/j.red.2017.07.007>

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## Highlights

- A sovereign default model with long-term debt, capital, and labor is proposed.
- It matches default episodes, including the peak one year before default.
- It also matches many small open economy business cycle statistics.
- Endogenized Neumeyer and Perri (2005) spreads/productivity link is crucial.
- More capital almost always reduces spreads, but the effect is diminishing.

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