Real Estate Economics / Volume 15, Issue 2 / p. 110-116

# The Borrower's Choice between Fixed and Adjustable Rate Loan Contracts

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First published: June 1987
https://doi.org/10.1111/1540-6229.00422



## Abstract

Previous research indicates that key variables in the choice between fixed and price index-linked debt are the covariances between inflation and real income and between inflation and the real value of the asset financed by the debt. This model extends those results to adjustable rate loan contracts and examines the impact of covariance between the real interest rate and, in turn, real income and real asset values. Positive (negative) covariance between those terms shifts preference toward the adjustable (fixed) loan contract.


## REFERENCES


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## Citing Literature