

# Constant Absolute Risk Aversion Preferences and Constant Equilibrium Interest Rates

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## ABSTRACT

This paper constructs a general equilibrium model with endogenous stochastic production and establishes that the equilibrium interest rate can be constant in a closed production economy when the preferences are represented by constant absolute risk aversion utility functions. The results in this paper and their limitations are compared and contrasted with related contributions in the financial economics literature.

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