





< Working Papers

Portfolio Choice and the Debtto-Income Relationship

Benjamin M. Friedman















WORKING PAPER 1545

DOI 10.3386/w1545

ISSUE DATE January 1985

The ratio of outstanding debt to gross national product in the United States has shown essentially no time trend over a period measured not in years but in decades. The research reported in this paper indicates that lenders' portfolio behavior exhibits characteristics that could provide aplausible explanation of this phenomenon. Given the long-run stability of the U.S. economy's wealth in relation to income, the question of lenders' behavior explaining the stable aggregate debt-to-income ratio turns on whether investors treat debt and other assets as close or distant substitutes in their portfolios. Analysis of financial assets' respective risk properties indicates that debt and equity are indeed sufficiently distant substitutes for lenders' behavior to confine the debt-to-income ratio within relatively narrow limits. In particular, the substitutability of debt and equity securities is sufficiently limited that very large movements in expected return differentials -- movements so large as presumably to elicit offsetting responses from borrowers -would be required to induce major changes in the debt share of investors' aggregate portfolio, and hence in the economy's aggregate debt-to-income ratio.

Download a PDF

Information on access

Acknowledgements and Disclosures

Download Citation

V

Published Versions

Friedman, Benjamin M. "Portfolio Choice and Debt-to-Incoome Relationship." American Economic Review, Vol. 75, No. 2, (May 1985), pp. 338-343.

Related

TOPICS Macroeconomics

PROGRAMS Monetary Economics

More from the NBER

In addition to working papers, the NBER disseminates affiliates' latest findings through a range of free periodicals — the NBER Reporter, the NBER Digest, the Bulletin on Health, and the Bulletin on Entrepreneurship — as well as online conference reports, video lectures, and interviews.



2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw," The Fiscal Future"

FELDSTEIN LECTURE

PRESENTER: N. GREGORY MANKIW

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...





Methods Lecture, Summer Institute 2025 Uncovering Causal Mechanisms: Mediation Analysis and Surrogate Indices

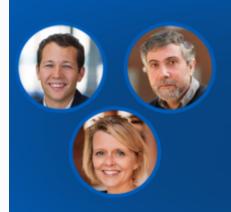
Raj Chetty, Harvard University and NBER Kosuke Imai, Harvard University July 24, 2025

<u>2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms: Mediation Analysis and Surrogate Indices"</u>

METHODS LECTURES

PRESENTERS: RAJ CHETTY & KOSUKE IMAI

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...



 $International\ Trade\ and\ Macroeconomics, Summer\ Institute\ 2025$

Panel on The Future of the Global Economy

Oleg Itskhoki, Harvard University and NBER Paul Krugman, City University of New York and NBER Linda Tesar, University of Michigan and NBER July 8, 2025 PRESENTERS: OLEG ITSKHOKI, PAUL R. KRUGMAN & LINDA TESAR

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

National Bureau of Economic Research

Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
webaccessibility@nber.org

HOMEPAGE

Accessibility Policy
Diversity Policy
Privacy Policy

FOLLOW













© 2025 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.