Paradox of Thrift Recessions

Zhen Huo & José-Víctor Ríos-Rull

SHARE

WORKING PAPER 19443

DOI 10.3386/w19443

ISSUE DATE September 2013

We build a variation of the neoclassical growth model in which both wealth shocks (in the sense of wealth destruction) and financial shocks to households generate recessions. The model features three mild departures from the standard model: (1) adjustment costs make it difficult to expand the tradable goods sector by reallocating factors of production from nontradables to tradables; (2) there is a mild form of labor market frictions (Nash bargaining wage setting with Mortensen-Pissarides labor markets); (3) goods markets for nontradables require active search from households wherein increases in consumption expenditures increase measured productivity. These departures provide a novel quantitative theory to explain recessions like those in southern Europe without relying on technology shocks.

Download a PDF

Information on access

Acknowledgements and Disclosures

Citation and Citation Data

Related

TOPICS

Macroeconomics
Consumption and Investment
Business Cycles

PROGRAMS

Economic Fluctuations and Growth

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, the Bulletin on the Economics of Alzheimer's, and the Bulletin on Entrepreneurship—as well as research spotlights, lectures, and panel videos.

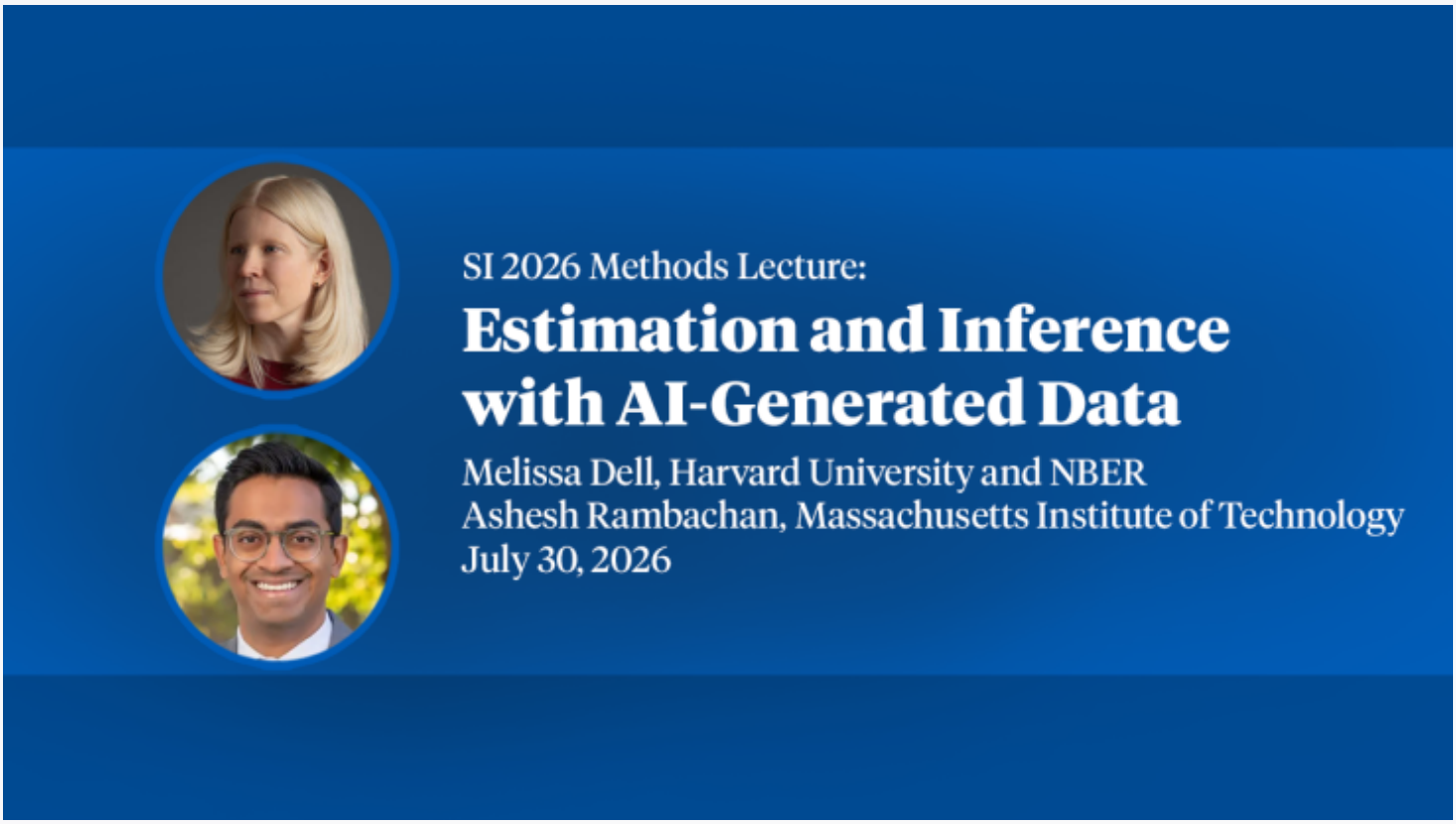


2026, 18th Annual Feldstein Lecture, Mark Duggan, "Social Security Reform in an Era of Fiscal Deficits"

FELDSTEIN LECTURE

PRESENTER: MARK DUGGAN

Mark Duggan, who is currently the Wayne and Jodi Cooperman Professor of Economics at Stanford University and will soon...



2026, Methods Lecture, Melissa Dell and Ashesh Rambachan, "Estimation and Inference with AI-Generated Data"

METHODS LECTURES

PRESENTERS: MELISSA DELL & ASHESH RAMBACHAN

Research Associate Melissa Dell of Harvard University and Ashesh Rambachan of MIT delivered the 2026 Methods...



2026, SI Household Finance, Paul Goldsmith-Pinkham, "Using AI in Household Finance Research: A Practical Guide"

VIDEO

PRESENTER: PAUL GOLDSMITH-PINKHAM

Supported by the Vanguard Group

National Bureau of Economic Research

Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138

617-868-3900
info@nber.org
webaccessibility@nber.org

© 2026 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.