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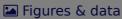
Interest rates and default in unsecured loan markets

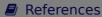
Jose Angelo Divino , Edna Souza Lima & Jaime Orrillo

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Abstract

This paper investigates how interest rates affect the probability of default (PD) in a general equilibrium incomplete markets economy. We show that the PD depends

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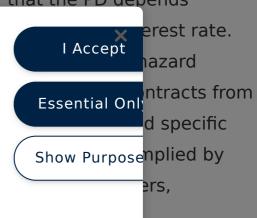
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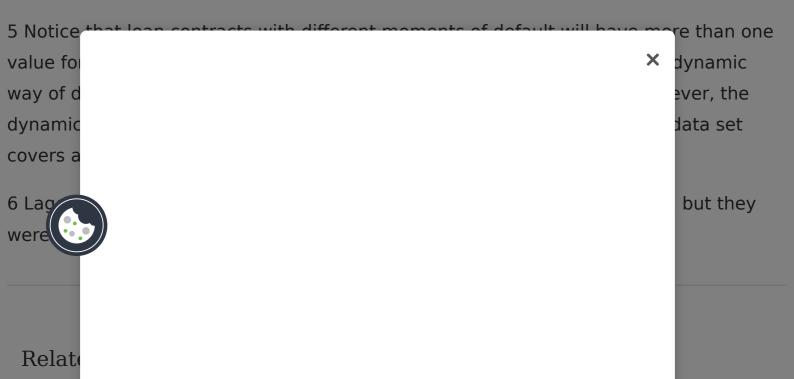
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Notes

1 In the aggregate level, see Ali and Daly (2010) for an analysis of the macroeconomic determinants of credit risk using cross country data and Chu (2001) for a time series analysis of the Brazilian case.

- 2 Interest rate paid by Brazilian government bonds.
- 3 Only age was included from personal borrower's characteristics because no other variable was available in the data set.
- 4 Notice that endogeneity of the interest rates is not an issue here because the estimated model uses real interest rates as covariates. In addition, the economy interest rate is set according to the inflation targeting monetary policy regime, independently from the average rate of default in the economy.



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