Growth and bubbles: The interplay between productive investment and the cost of rearing children

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Abstract

We study the role of bubble on growth when agents choose to invest in a productive asset (human capital, project) and decide their number of children. The bubble is used to smooth consumption over the life-cycle, but can also be used to finance the productive investment. We show and explain that the time cost of rearing children plays a key role in the analysis. If the time cost per child is sufficiently large, households have only a few number of children. The bubble has a crowding-in effect because it is used to finance the productive investment. On the contrary, if the time cost per child is low enough, households have several children. Then, the bubble is in particular used to finance the global cost of rearing children and has a crowding-out effect. Therefore, the new mechanism on the link between growth and bubble we highlight shows that a bubble enhances growth only if the economy is characterized by a high rearing time cost per child, which may be a feature of more developed countries.

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