

Asset Bubbles, Labor Market Frictions, and R&D-based Growth

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Abstract

Employing an overlapping generations model of R&D-based growth with labor market frictions, this paper examines how employment changes induced by labor market frictions influence the asset bubbles and the long-run growth rate of the economy. We show that the existence of bubbles is contingent upon the equilibrium employment rate. Asset bubbles can (not) exist when employment is high (low), which leads to higher (lower) economic growth through labor market efficiency. Furthermore, we show that policy or parameter changes that have a negative influence on the labor market leads to a bubble burst.

Keywords: overlapping generations, asset bubbles, labor market friction, employment, R&D

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