



A Real-Assets Model of Economic Crises: Will China Crash in 2015?

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Abstract supplied by Wiley Publishing: Loosely derived from Henry George's theory that land speculation creates boom-bust cycles, a real-assets model of economic crises is developed. In this model, land prices play a central role, and three hypothesized mechanisms are proposed by which swings of land prices affect the entire economy: construction on marginal sites, partial displacement of circulating capital by fixed capital investment, and the over-leveraging of bank assets. The crisis of 2008 is analyzed in these terms along with other examples of sudden economic contractions in U.S. history, recent European experience, and global examples over the past 20 years. Conditions in China in 2014 are examined and shown to indicate a likely recession in that country in 2015 because its banks are over-leveraged with large-scale, under-performing real estate loans. Finally, alternative methods of preventing similar crises in the future are explored.

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