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Abstract

Models with an occasionally binding credit constraint have been used to analyze financial crises and previous literature has highlighted that the specific form of this constraint is decisive for policymaking conclusions. What are the welfare effects of implementing a policy that is appropriate for a specific type of constraint when the economy is actually facing a different one? We provide an answer by analyzing the implementation either of ex ante (or macroprudential) vs. ex post debt taxes in four possible collateral constraint cases (depending on whether creditors assess current or future and total or disposable income of debtors). Our main conclusion is that a debt tax applied only during potentially constrained periods (i.e., ex post) is a more favorable intervention if the policymaker does not know which credit constraint is facing or if it is more likely to be facing a disposable-income constraint (either for current or future income).