GOOD BOOMS, BAD BOOMS

Gary Gorton
Yale University

Guillermo Ordoñez
University of Pennsylvania

Abstract
Credit booms are not rare; some end in a crisis (bad booms) while others do not (good booms). We document that credit booms start with an increase in productivity growth, which subsequently falls faster during bad booms. We develop a model in which a crisis happens when a credit boom transits towards an information regime with careful examination of collateral. As this examination is more valuable when collateral backs projects with low productivity, crises are more likely during booms that display larger productivity declines. We test the main predictions of the model and identify the default probability as the main component of measured productivity that lies behind crises. (JEL: E32, G21, D83)

The editor in charge of this paper was Claudio Michelacci.

Acknowledgments: We thank Claudio Michelacci (the editor) and three anonymous referees for their feedback, Kyriakos Chousakos, Gabriele Foa, Tim Rudner and Minhua Wan for excellent research assistance, Enrique Mendoza and Marco Terrones for sharing data and Franklin Allen, Fernando Alvarez, Patrick Bolton, Dan Cao, Larry Christiano, Marco Del Negro, Sebastian Di Tella, Darrell Duffie, Giovanni Favara, Stuart Gabriel, Campbell Harvey, Charles Kahn, Sebnem Kalemli- Ozcan, Arvind Krishnamurthy, Pablo Kurlat, Jean-Paul L'Huiller, Alberto Martin, Justin Murfin, Claudio Raddatz, Sergio Rebelo, Ricardo Reis, Martin Shubik, Alp Simsek, Harald Uhlig, Ivan Werning and seminar participants at Aalto University, Bank of Italy, Bank for International Settlements, BI Norwegian Business School, Boston College, Central Bank of Chile, Chicago, Chicago Fed, CREI, Duke, Federal Reserve Board of Governors, EIEF, FDIC, Georgetown, HEC Montreal, Imperial, Inter-American Development Bank, LBS, LSE, Maryland, Minneapolis Fed, Northwestern, New York Fed, Ohio State, Philadelphia Fed, St. Louis Fed, Stanford, UCLA, Virginia, Wharton, the 2015 SED Meetings at Warsaw, the 2015 Conference of Macroeconomics at Rome, the 2015 Workshop for Safe Assets at Amsterdam, the 2014 Cowles GE Conference at Yale, the 2015 SITE Conference at Stanford, the 2015 EFG Meetings at the NBER Summer Institute, the 2015 AEA Meetings in Boston and the 2015 Santiago Finance Workshop for comments. This paper previously circulated under the title "Crises and Productivity in Good Booms and in Bad Booms". The usual waiver of liability applies. Gorton and Ordoñez are NBER Research Associates.

E-mail: gary.gorton@yale.edu (Gorton); ordonez@econ.upenn.edu (Ordoñez)