Multi-country ABM perspective on business cycles and deleveraging crises
Thesis Abstract

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We contribute to the existing literature on macroeconomic impacts of wage flexibility by examining complexly interacting open economies which undergo economic crises characterized by debt-deflation. More generally, consideration of complexity of interactions and feedback effects between trading countries in our model also constitutes an interesting contribution to the literature on open economies, which usually utilizes small open economy models. We utilize multi-country agent-based model with decentralized markets which produces endogenous economic crises characterized by deflation and excessive levels of private debt. We examine scenarios with different international trade settings and sizes of countries. We find that under almost all scenarios, more stable wages have stabilizing macroeconomic effects as demand-driven recovery is faster and smoother than the one driven by increased margins of firms and consequent debt deleveraging. Moreover, if countries with different levels of wage flexibilities trade with each other, recessions in the country with more flexible wages become milder as international trade helps to increase sales of crisis-hit firms without initiating crisis of a similar severity abroad. Meanwhile, economies of large countries have strong impact on economies of their small trading partners and are considerably more stable. Their firms are in times of crises able to offload excessive supply abroad with considerable negative impact on the small country's firms' sales, while the analogous effects in the opposite case are significantly less powerful.