

Abstract

This Thesis studies the role of domestic and foreign credit shocks in aggregate fluctuations and how households respond to those shocks. The first chapter explores the role of credit in shaping aggregate fluctuations in a panel of advanced and emerging countries. We decompose total credit by aggregate shocks and by borrower type. We establish that the overall boom-bust recession response to bank credit is due to exclusively household credit expansions, primarily when these expansions are driven by shocks to aggregate demand. In contrast, corporate credit expansions exhibit no boom-bust effects and immediately increase the risk of recession, and this increase is mainly driven by shocks to credit supply. The second chapter analyzes the transmission of credit supply shocks to household balance sheets and labor market outcomes. We leverage differences in credit conditions across U.S. states and compare household outcomes of the population residing in states that witnessed credit conditions easing of various intensities. We show that positive credit shocks lead to greater household defaults in the future if they increase the household mortgage-to-income ratio. We document that positive credit supply shocks induce (i) shifts of employment between the tradable and non-tradable sectors, (ii) changes in household income and (iii) in house prices, which shape the accumulation of default risks. The third chapter studies the effects of sanctions which can be thought of as a realization of a negative international credit supply shock. We introduce a novel approach to identify the sanctions shock—a *high-frequency identification* (HFI) based on the US sanction announcements and daily data on Russia’s US Dollar-denominated sovereign bonds. We show that the sanction announcements in 2014–2015 were very potent: the underlying sanctions could lead to a GDP decline of up to 3.2%, which is twice as large as estimated in the previous work. Finally, the fourth chapter introduces a new identification of country-spread shocks in emerging economies. This identification is grounded on the experience of sudden stops – large capital reversals during crises in these countries. I conclude by describing alternative shock identification procedures.