

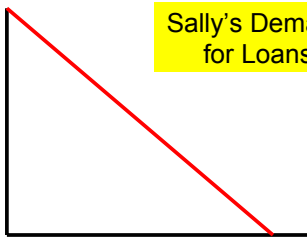
Personal Bankruptcy

Personal Bankruptcy

- Individuals get over their head, and bankruptcy law should bail them out.
- General principle: satisfy creditors to the extent possible.

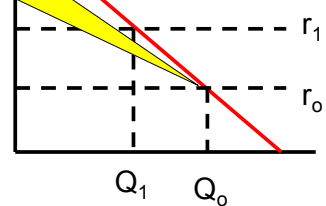
The Cost

Sally's Demand for Loans

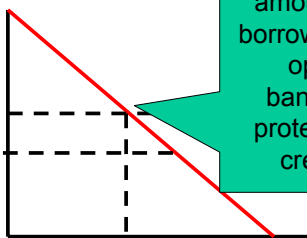


With optimal bankruptcy protection for creditors

The Cost



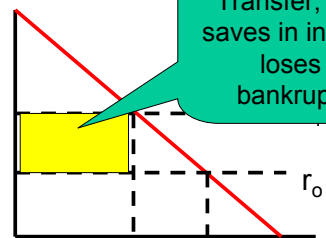
Interest rate and amount Sally borrows without optimal bankruptcy protection for creditors



Q_1

The Cost

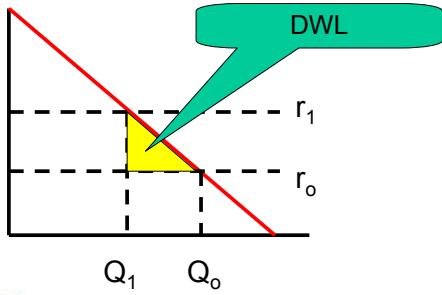
Transfer, Sally saves in interest, loses if bankruptcy



Q_1

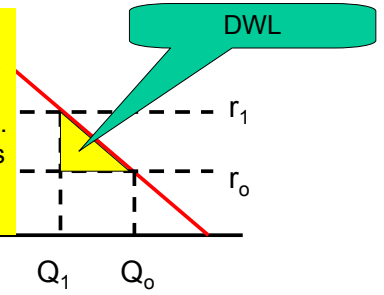
Q_0

The Cost



The Economics of Recycling

Do these graphs look familiar? They should. But then this is the same argument.



End

©2004 Charles W. Upton