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**Collateral and Punishment: Coexistence in General Equilibrium**

**Abstract:**

This paper builds a perfectly competitive general equilibrium model where both secured and unsecured debt contracts are available for trade and analyzes this model to prove the existence and determine the nature of equilibria. I define a coexistence equilibrium as one that involves active trade in both secured and unsecured debt and study the sufficient conditions to guarantee its existence. This paper combines endogenous leverage with the anonymity of perfectly competitive markets to present a scenario where coexistence arises endogenously. I connect this behavior to the existence of endowment inequalities and illustrate how this inequality affects agents' portfolio decisions between the two types of debt. Finally, by comparing equilibria across financial structures where only one or both kinds of debt are available, I also demonstrate the asset pricing and redistributive implications of these results.

**Keywords:** Secured Debt, Unsecured Debt, Asset Pricing, Incomplete Markets, Collateral

**JEL Classification:** D52, D53, G51