

# Risk Incentives in an Interbank Network

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## Summary of paper

- ▶ Endogenous formation of network of interbank exposures as response to fundamental maturity mismatch on balance sheet
- ▶ Risk-sharing vs. risk-shifting due to limited liability and network effects
- ▶ How do certain policies affect risk-sharing and risk-shifting?
  - ▶ Regulatory policy: leverage, risk weights, and reserve requirement
  - ▶ Intervention policy: CB's lending facility, bailouts

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1. Comments on model

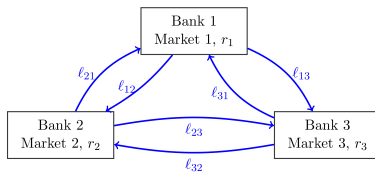
2. Comments on policy analysis

## Modeling framework

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(**networked markets**)

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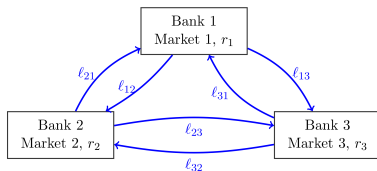
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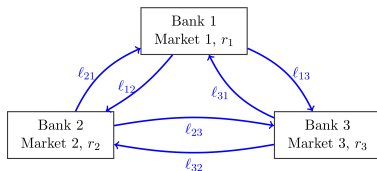


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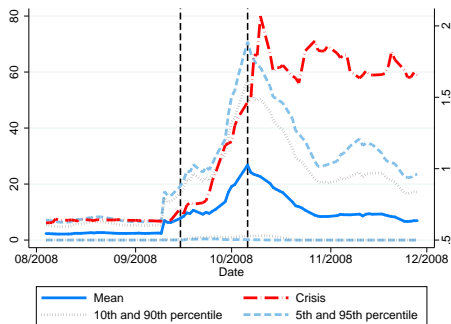


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- ▶ Assumption: one single price of interbank debt for each bank:  $r_{ij} = r_j = f'_j, \forall i$
- ▶ Implications:  $r_i > r_j \Rightarrow l_{ij} = 0$ , no reciprocal lending (hence no core-periphery structure), no borrower level price dispersion

## Empirical interest rate dispersion

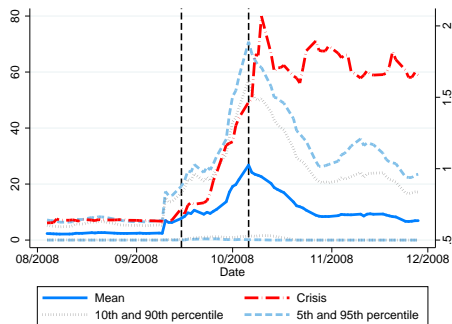
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- ▶ Bilateral Nash bargaining about interest rate, e.g. Bech and Klee (JME, 2011)

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- ▶ How does a mix of policies affect welfare/risk?
- ▶ Why not extend central bank analysis to IOER policy? Any room for negative remuneration of excess reserves in model? → implications for risk-taking?

## Numerical analysis

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- ▶ Why not use larger network than  $N = 20$  (framework mimics US banking sector)? How sensitive are comparative statics to parameter choices?
- ▶ Estimation of parameters with SMM (Gofman, 2014) or indirect inference (Blasques et al., 2014)