Bank Asset Channel

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Abstract

The financial intermediation sector is important not only for channeling resources from agents in excess of funds to agents in need of funds (credit channel). They also facilitate the creation of financial assets that can be used for insurance purposes. Then, when the financial sector experiences difficulties that prevent them from creating these assets, agents in the economy (being them households or firms) are less willing to engage in risky activities. The first goal of this paper is to emphasize this particular channel which I refer to as ``bank asset channel". The second goal is to explore the possibility that difficulties in financial intermediation could be driven by pessimistic expectations about the liquidity in the financial sector. The model features multiple equilibria where the liquidity of banks is central for the multiplicity.