



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



The Macroeconomics of Liquidity in Financial Intermediation

A discussion by Paweł Fiedor

Summary

- Macroeconomic models do not account for rising liquidity premiums in times of financial stress
- Authors account for this by modelling bank runs as a coordination game:
 - similar to Diamond & Dybvig (JPE, 1983)
 - depositors' supply of funding to banks is a function of the perceived fragility of the banks
 - net worth and liquid assets are substitutes and act as a sign of safety for depositors
- In a financial shock, net worth is falling, thus to avoid runs banks increase demand for liquid assets
- Macroeconomic model: the friction amplifies shocks to banks' net worth reducing supply of credit
- Empirical test of the model: high liquidity premium leads to high funding cost for banks
- The results imply that policies supplying liquid assets can stabilize the economy
- In particular, the paper contributes as a novel analysis of QE as a liquidity (instead of the usual credit) policy



Suggestions & inquiries

- Coordination game: are the results robust wrt. the setup:
 - do the results hold if you introduce markets (Atkeson's critique)?
 - would introduction of endogenous information (e.g. Bayesian persuasion) alter the results?
- Calibration to the US pre-2008:
 - does it hold for the EU which is much more banking based?
 - does it hold post-Basel?
 - will it hold when credit intermediation moves to non-bank financial intermediaries?
- Thoughts on links to Adrian & Shin (JFE, 2010) asserting that liquidity is the δ of bank's balance sheet?
- Ideas for monitoring the interactions between market and funding liquidity in light of the model?



Thank you!



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