



Seminarios de Macroeconomía y Finanzas

Regulating Financial Networks Under Uncertainty

Expositor: Carlos Ramírez – Federal Reserve Board

Viernes 20 de Diciembre, 13:00 a 14:30 hrs

Sala de Conferencias, Agustinas 1180, piso 3

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Los Seminarios de Macroeconomía y Finanzas tienen como objetivo difundir investigación académica y aplicada de investigaciones del Banco y externos.

Abstract

I study the problem of regulating a network of interdependent financial institutions that is prone to contagion when there is uncertainty regarding its precise structure. I show that such uncertainty reduces the scope for welfare-improving interventions. While improving network transparency potentially reduces this uncertainty, it does not always lead to welfare improvements. Under certain conditions, regulation that reduces the risk-taking incentives of a small set of institutions can improve welfare. The size and composition of such a set crucially depend on the interplay between (i) the (expected) susceptibility of the network to contagion, (ii) the cost of improving network transparency, (iii) the cost of regulating institutions, and (iv) investors' preferences.