Banking and sovereign debt crises in a monetary union without central bank intervention

Jin Cheng, Meixing Dai, Frédéric Dufourt

PII: S0304-4068(16)00007-0
DOI: http://dx.doi.org/10.1016/j.jmateco.2016.01.005
Reference: MATECO 2050

To appear in: Journal of Mathematical Economics

Received date: 6 January 2015
Revised date: 9 September 2015
Accepted date: 28 January 2016

Please cite this article as: Cheng, J., Dai, M., Dufourt, F., Banking and sovereign debt crises in a monetary union without central bank intervention. Journal of Mathematical Economics (2016), http://dx.doi.org/10.1016/j.jmateco.2016.01.005

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.
Banking and Sovereign Debt Crises in a Monetary Union
Without Central Bank Intervention*

Jin Cheng, Meixing Dai and Frédéric Dufourt†

First Version: May 2012
This version: August 2015

Abstract

We analyze the conditions of emergence of a twin banking and sovereign debt crisis within a monetary union in which: (i) the central bank is not allowed to provide direct financial support to stressed member states or to play the role of lender of last resort in sovereign bond markets, and (ii) the responsibility of fighting against large scale bank runs, ascribed to domestic governments, is ensured through the implementation of a financial safety net (banking regulation and government deposit guarantee). We show that this broad institutional architecture, typical of the Eurozone at the onset of the financial crisis, is not always able to prevent the occurrence of a twin banking and sovereign debt crisis triggered by pessimistic investors’ expectations. Without significant backstop by the central bank, the financial safety net may actually aggravate, instead of improve, the financial situation of banks and of the government.

Keywords: banking crisis, sovereign debt crisis, bank runs, financial safety net, liquidity regulation, government deposit guarantee, self-fulfilling prophecies.


*This is a substantially revised version of a paper first presented at the 16th Theory and Methods in Macroeconomics conference held in Nantes, May 10-11, 2012, under the title: "Banking Crisis, Sovereign Debt Crisis and Credit Rating Agencies". The paper also benefitted from presentations at the Vth Doctoral Workshop on Dynamic Macroeconomics, the 29th Annual Congress of the European Economics Association (EEA), the 2013 Annual Meeting of the Association of Southern European Economic Theorists (ASSET), and various seminars. We thank conference participants, Vladimir Borgy and Rodolphe Dos Santos Ferreira for very helpful comments and suggestions. Jin Cheng thanks the region of Auvergne for funding during the period when this paper was written.

†Jin Cheng: Université d’Auvergne, CNRS-CERDI. E-mail: jin.cheng1@udamail.fr. Meixing Dai: Université de Strasbourg, CNRS-BETA. E-mail: dai@unistra.fr. Frédéric Dufourt: Aix-Marseille Université (Aix-Marseille School of Economics), CNRS-GREQAM & EHESS and Institut Universitaire de France. E-mail: frедерic.dufourt@univ-amu.fr
دریافت فوری
متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات