Andreas Krause

Chapter 15.1.2

Coordination of deposit withdrawals

Losses from withdrawing deposits

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Losses from withdrawing deposits

- Withdrawals of deposits can impose losses on banks

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Loan sales to finance deposit withdrawals

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Loan sales to finance deposit withdrawals

- Banks face withdrawals of deposits
- They repay these deposits from their existing cash reserve
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Loan sales to finance deposit withdrawals

- Banks face withdrawals of deposits
- They repay these deposits from their existing cash reserve and the sale of loans

- $R + \pi (1 + r_L) \hat{L} = \gamma D$

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Loan sales to finance deposit withdrawals

- Banks face withdrawals of deposits
- They repay these deposits from their existing cash reserve and the sale of loans, for which they obtain a fraction of their true value
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Bank failure

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- A bank fails if the remaining depositors cannot be repaid
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Insolvency with small deposit withdrawals

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Illiquidity with large deposit withdrawals

- If withdrawal rates are high, banks may have to sell all loans, $\hat{L} = L$
- Banks cannot pay all depositors withdrawing early if the money raised, plus cash reserves, is below the deposit withdrawals
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- The remaining depositors obtain from the bank repayments of the loans not sold, and the cash reserves, less the amount repaid for early withdrawals
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Bank failures due to deposit withdrawals

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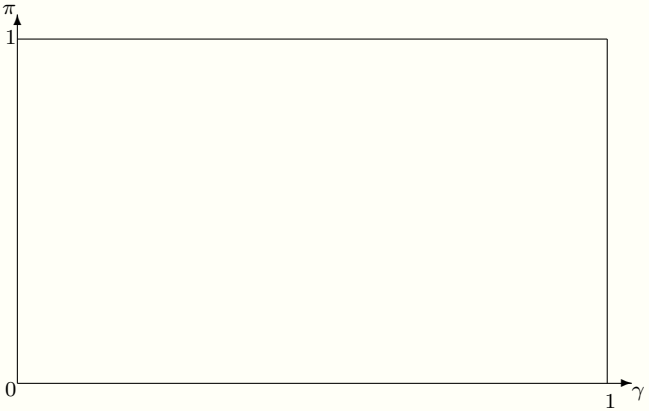

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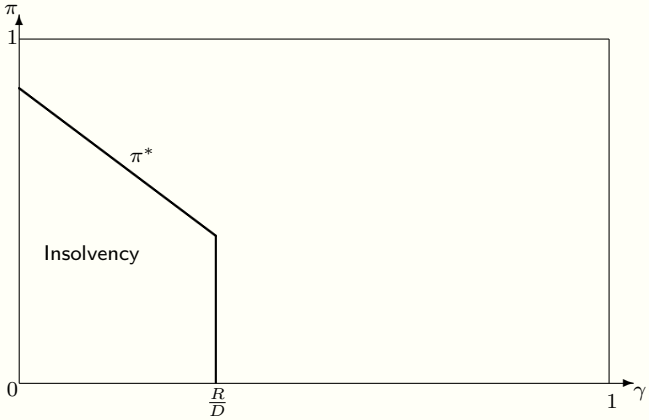

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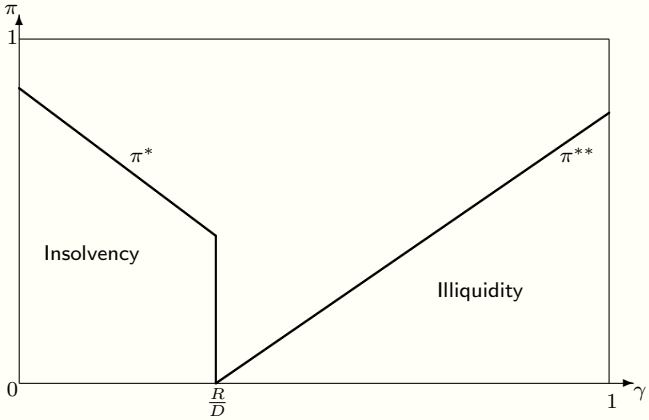

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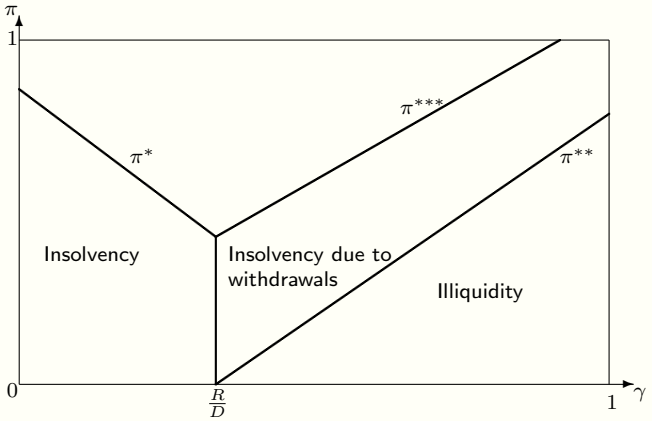

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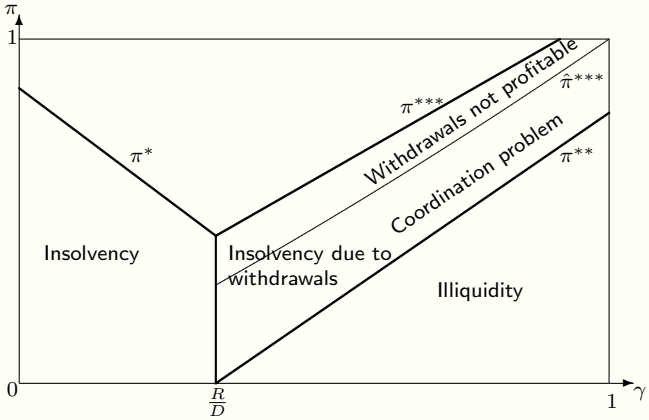

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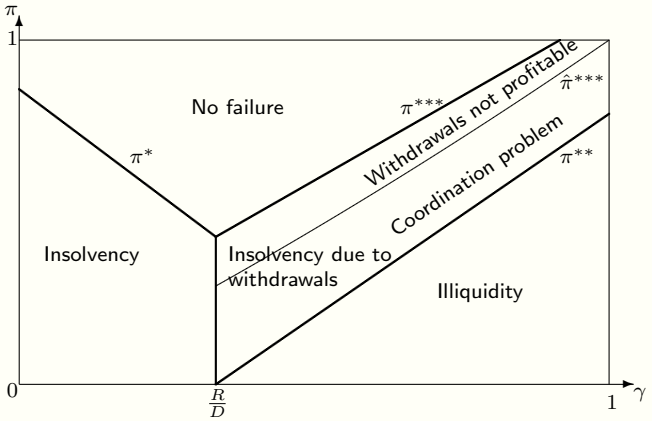

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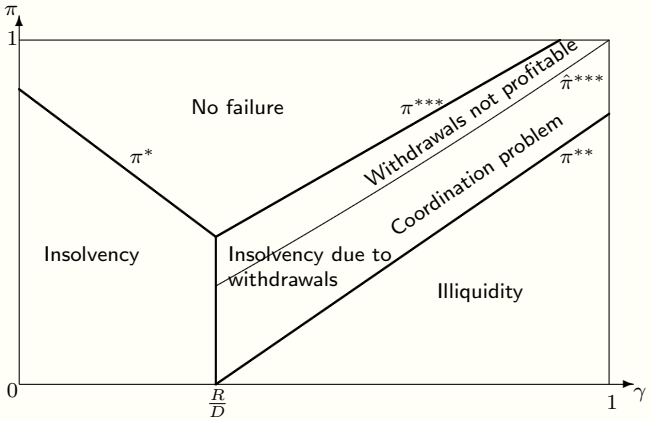

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Summary

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