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Chapter 18.2.1

The optimality of deposit insurance limits

Outline

Dividing deposits

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- Problem and model assumptions
- No deposit insurance
- Full deposit coverage
- Partial deposit coverage
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- In this case competition for large deposits is not too strong to negate the effect of the lower deposit rate due to them not being exposed to risk

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$\Rightarrow$ $\Pi_B^{***} = \pi\frac{(1+\lambda)^2}{1+\pi\lambda}D$

- These profits are higher than no deposit insurance if $\pi > \frac{1}{1+2\lambda}$
- In this case competition for large deposits is not too strong to negate the effect of the lower deposit rate due to them not being exposed to risk

- Problem and model assumptions
- No deposit insurance
- Full deposit coverage
- Partial deposit coverage
- Summary

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