



Chapter 11.2

Introduction of innovations

Outline

- Problem and model assumptions
- Controversial innovations
- Phasing of innovations
- Selling innovations
- Optimal strategy for small banks
- Summary

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- ▶ **Small banks** will prefer to **sell** the innovation

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- ▶ The **larger** the **buying** investment bank, the **larger** the **seller** can be

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- ▶ If $C_S \leq C_D$, then the revenue from not selling is $\Pi_B^{i,t} = \alpha_i N C_D + (1 - \alpha_i) N \max \{C_D - C_S, 0\}$
- ▶ If selling they obtain $P = \alpha_j N C_S$
- ▶ The investment bank sells the innovation is $P > \Pi_B^{i,t}$
- ▶ This requires $\alpha_i \leq \alpha^{**} = 1 - (1 - \alpha_j) \frac{C_D}{C_S} < 1$
- ▶ Small banks will prefer to sell the innovation
- ▶ The larger the buying investment bank, the larger the seller can be

- Problem and model assumptions
- Controversial innovations
- Phasing of innovations
- Selling innovations
- **Optimal strategy for small banks**
- Summary

Selling, phasing in, immediate release

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$\alpha_i \leq \alpha^*$			
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