



Chapter 11.2
Introduction of innovations

Outline

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

■ Problem and model assumptions

■ Controversial innovations

■ Phasing of innovations

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■ Summary

Problem and assumptions
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Controversial innovations
ooo

Phasing
ooooo

Sale
oooo

Small banks
ooo

Summary
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Phased introduction and sale of innovations

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- ▶ Financial innovations can be **copied** by other investment banks

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

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- ▶ The investment bank sells the innovation if $P > \Pi_B^{i,t}$
- ▶ 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

Low switching costs

- ▶ If $C_S \leq C_D$, then the revenue from not selling is
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■ 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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Problem and assumptions
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Controversial innovations
○○○

Phasing
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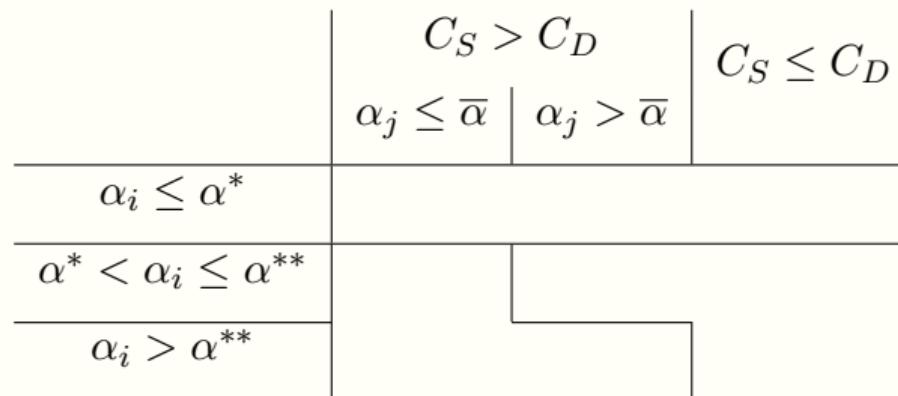
Sale
○○○○

Small banks
○○●

Summary
○○○○

Sale and introduction strategy

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Sale and introduction strategy

		$C_S > C_D$	$C_S \leq C_D$
		$\alpha_j \leq \bar{\alpha}$	$\alpha_j > \bar{\alpha}$
$\alpha_i \leq \alpha^*$	immediate introduction		
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