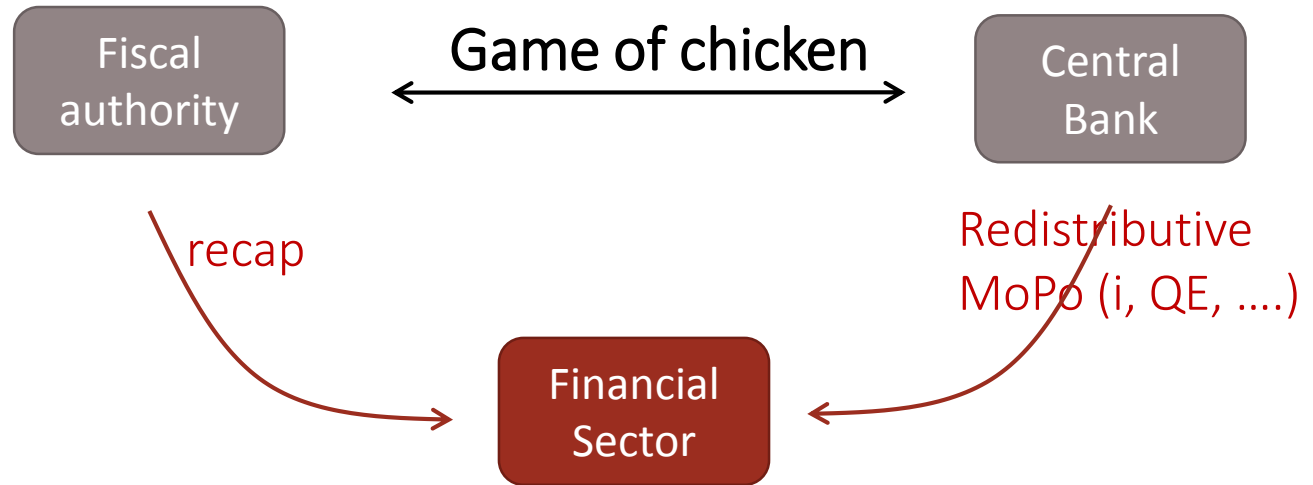


III Institutional Design: Financial Dominance



- Monetary dominance
 - Fiscal authority is forced to adjust budget deficits
- Fiscal dominance
 - Inability or unwillingness of fiscal authorities to control long-run expenditure/GDP ratio
 - Limits monetary authority to raise interest rates
- **Financial dominance**
 - Inability or unwillingness of financial sector to absorb losses
 - Refusal to issue no equity – pay out dividends in early phase of crisis