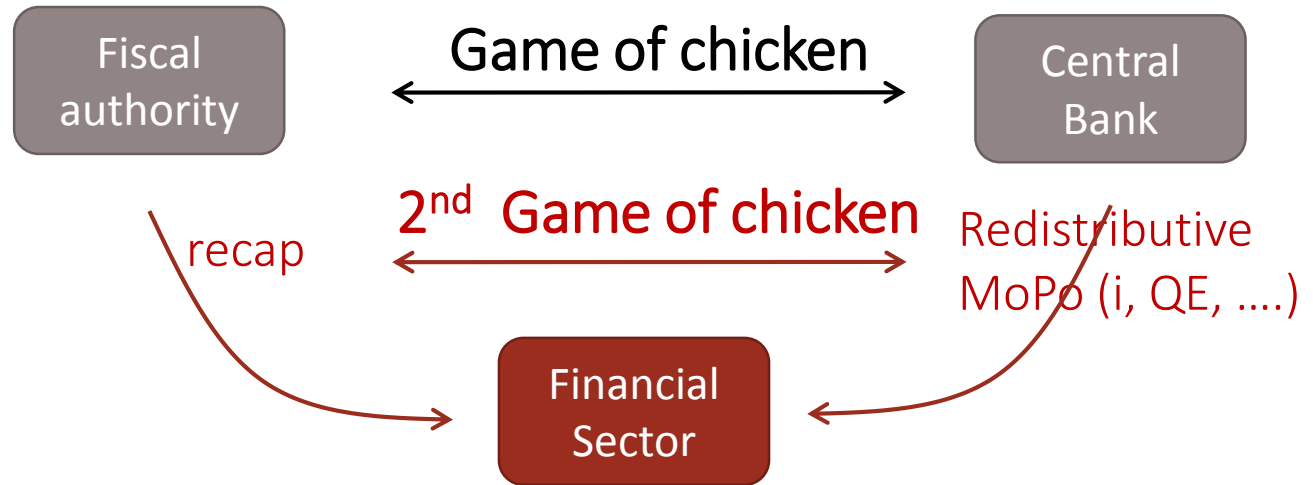


# III Institutional Design: 2<sup>nd</sup> Game of Chicken



- 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