

2nd Game of Chicken: Weaker of two

- Under Financial dominance
(financial sector does not assume losses)

2nd battle btw monetary and fiscal authority (ECB vs ESM)

- Fiscal authorities try to push losses onto CB's balance sheet
 - Redistributive MoPo
 - CB might be held back from raising interest rates
 - CB would like fiscal authorities to recap/stabilize banks
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- **Moral hazard** of financial sector (after split of authorities)
driven by **weakest of the two**
 - Bailout by fiscal authorities
 - Bailout through MoPo