

Conclusion

- Problem: Time inconsistency
- Institutional design: independent institutions (e.g. CB)
- No 0/1-dominance but game of chicken
- Under **financial dominance**:
 - **2nd Game of Chicken**
Who recapitalizes/stabilizes financial system
 - **Weaker authority matters for MH**
 - Financial sector worries about weaker authority
- Who bears interest rate and liquidity risk?
 - Fiscal vs. central bank vs. financial sector (absorption capacity)
 - If CB bears interest rate risk => QE = commitment device
 - **Why** should government **buy** liquidity risk **insurance from** an **undercapitalized** financial sector?