Motivation

- Financial crises occur periodically, Kindleberger (1993)
  - Spirals and adverse feedback loops
  - Spillovers
    - Across financial institutions
    - To real economy
  - Deflationary pressure, Fisher (1933)
- Current macro approach
  - Many DSGE models use representative agents, ignore **financing frictions** and **spillover effects**
  - Models with a financial sector (e.g. Bernanke-Gertler-Gilchrist) log-linearize near steady state, miss instability below steady state (due to **non-linear dynamics**)
  - Monetary effects are often due to price stickiness
  - Price stability vs. financial stability analyzed in different frameworks