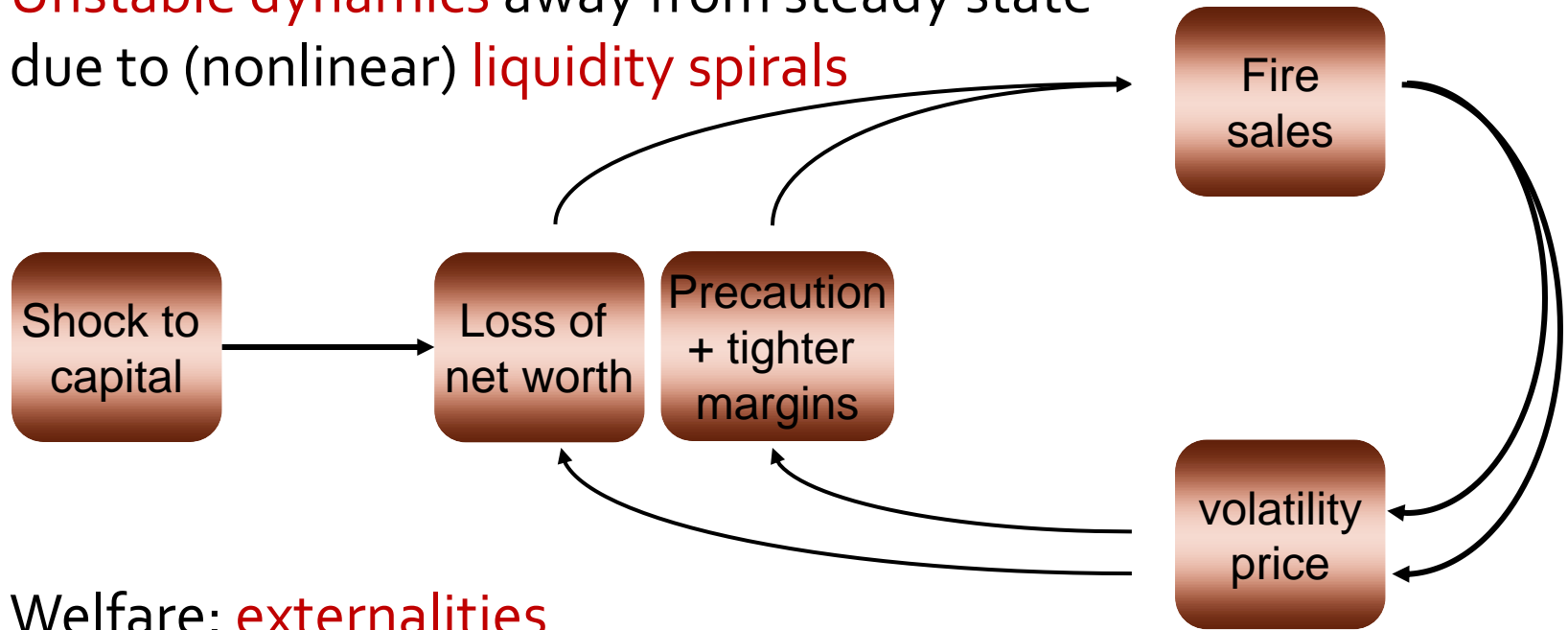


# Preview of amplification & externalities

1. **Unstable dynamics** away from steady state due to (nonlinear) **liquidity spirals**



2. Welfare: **externalities**
  - **within financial sector**: When levering up, institutions ignore that their fire-sales depress prices for others --- inefficient pecuniary externality
  - **to real economy**
3. Asset prices become more correlated in crisis
3. **Securitization** can lead to excessive leverage