Securitization

- Experts can contract on shocks Z_t and J_t^i directly among each other, contracting costs are zero
- In principle, good thing (avoid verification costs)
- Equilibrium
  - experts fully hedge idiosyncratic risks
  - experts hold their share (do not hedge) aggregate risk Z, market price of risk depends on $\sigma_t^f (\sigma + \sigma_t^p)$
  - with securitization, experts lever up more (as a function of η_t) and pay themselves sooner
  - financial system becomes less stable