

Conclusion

- Incorporate financial sector in macromodel
 - Higher growth
 - Exhibits **instability**
 - similar to existing models (BGG, KM) around steady state
 - non-linear liquidity spirals (away from steady state)
- Inside money - intermediaries are hit on both side of balance sheet: **Deflation spiral**
- **Externalities** when leverage/payouts are chosen
 - Within financial sector:
possible fire sales compromise others' balance sheets
 - Towards real economy (workers)
- **Securitization** helps share idiosyncratic risk, but amplifies systemic risk