



You are cordially invited to

UCLouvain Economics Seminar

On Thursday February 2, 2017, from 12:45 to 14:00
Doyen 22, Place des Doyens, 1

Piero Gottardi
(European university Institute)

Will give a presentation on

A Theory of Repurchase Agreements, Collateral Re-use, and Repo Intermediation

Abstract:

This paper characterizes repurchase agreements as equilibrium contracts starting from first principles. We show that repos trade-off the borrower's desire to augment its consumption today with the lender's desire to hedge against future market risk. As a result, safer assets will command a lower haircut and a higher liquidity premium relative to riskier assets. Haircuts may also be negative. When lenders can re-use the asset they receive in a repo, we show that collateral constraints are relaxed and borrowing increases. Re-usable assets should command low haircuts. Finally, endogenous credit intermediation arises whereby trusty counterparties re-use collateral and borrow on behalf of riskier counterparties. These findings are helpful to rationalize chains of trade observed on the repo market.

(Joint paper with Vincent Maurin, European University Institute, and Cyril Monnet, University of Bern, SZ Gerzensee & Swiss National Bank)

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