

# Institutional Finance

Financial Crises, Risk Management and Liquidity

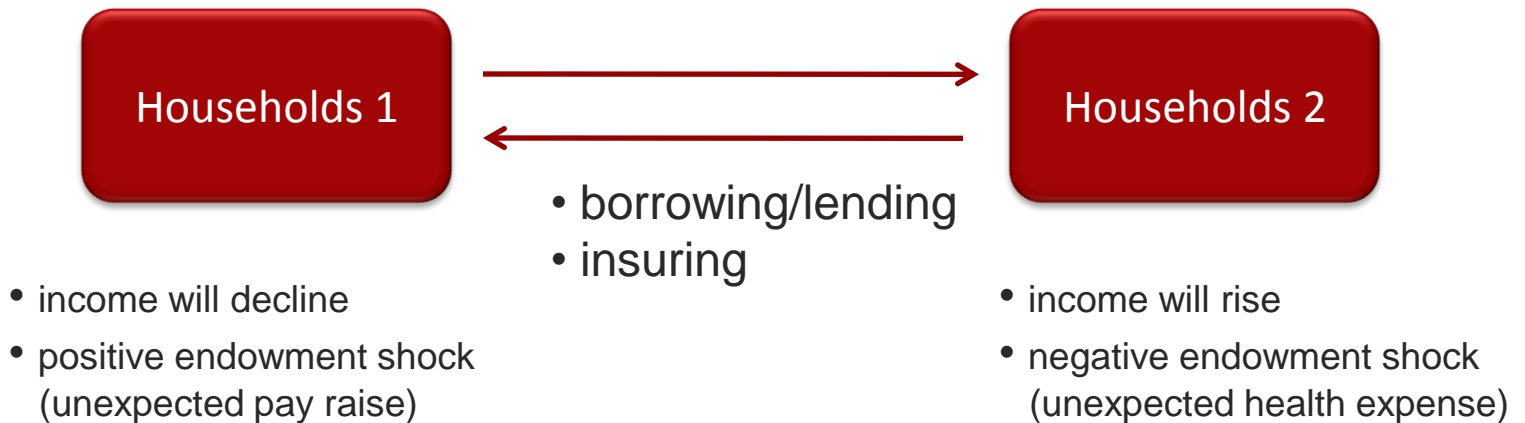
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Princeton University

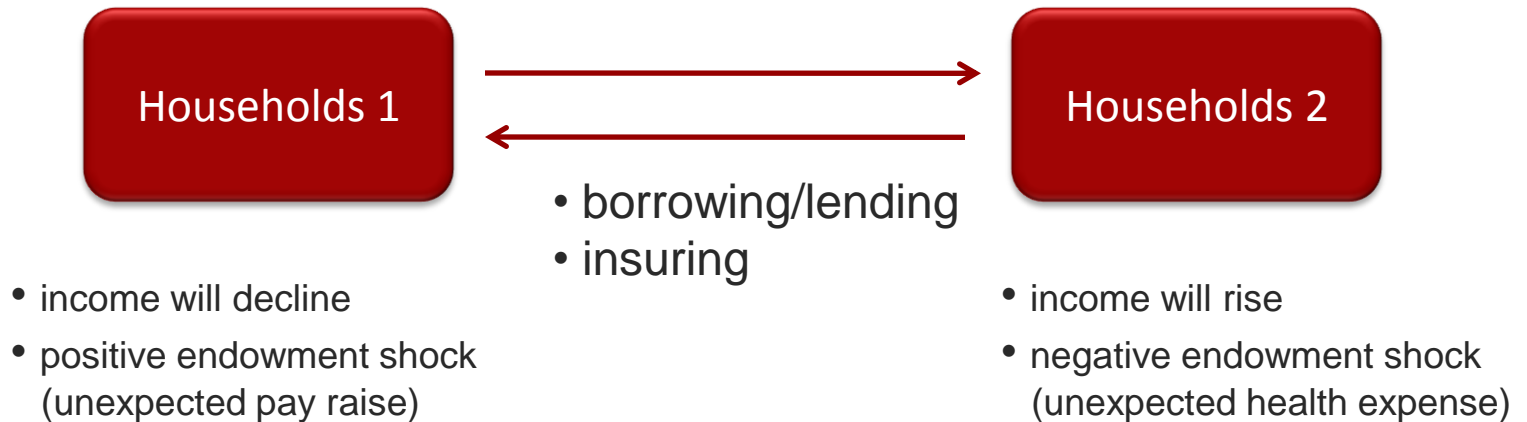
# || What's Institutional Finance?

## ■ Traditional Finance



# || What's Institutional Finance?

## ■ Traditional Finance – Endowment Economy

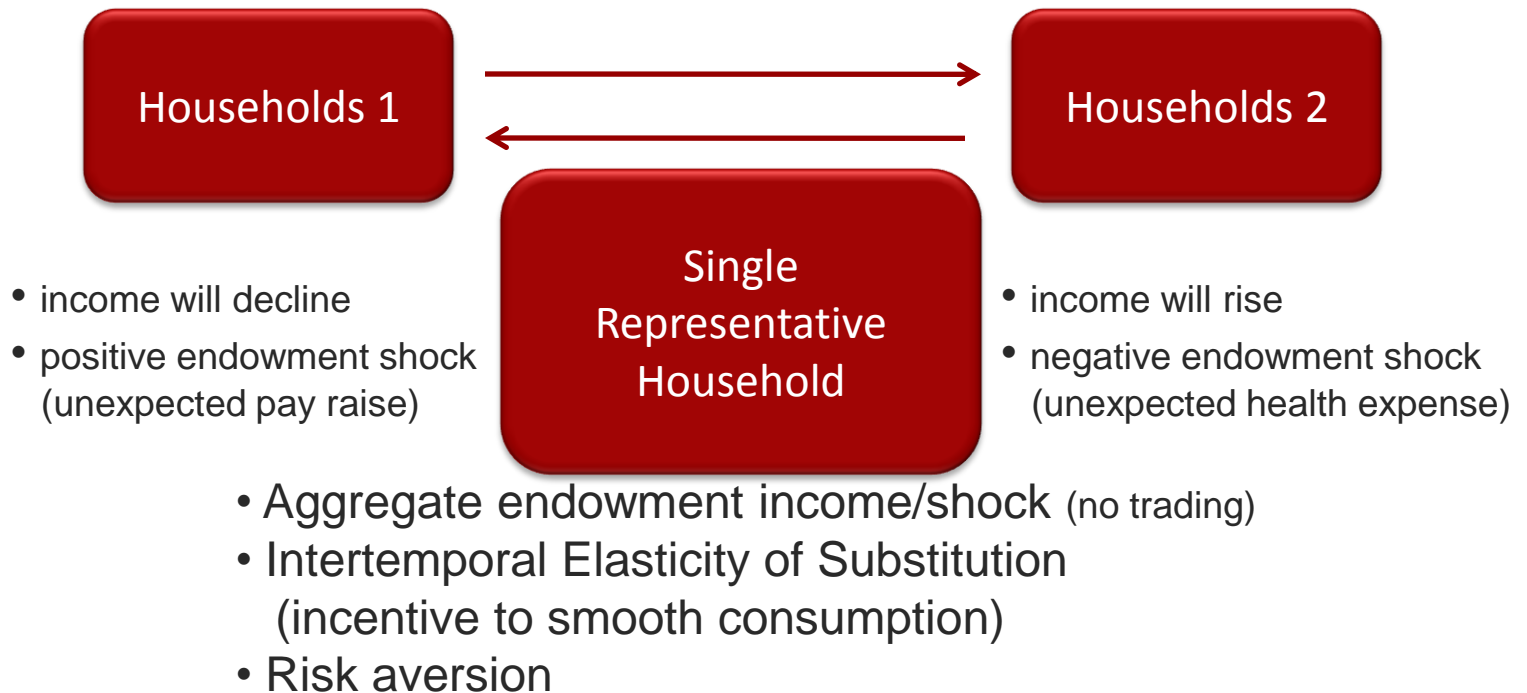


**At what price/interest rate?**

**Assumption: No frictions**

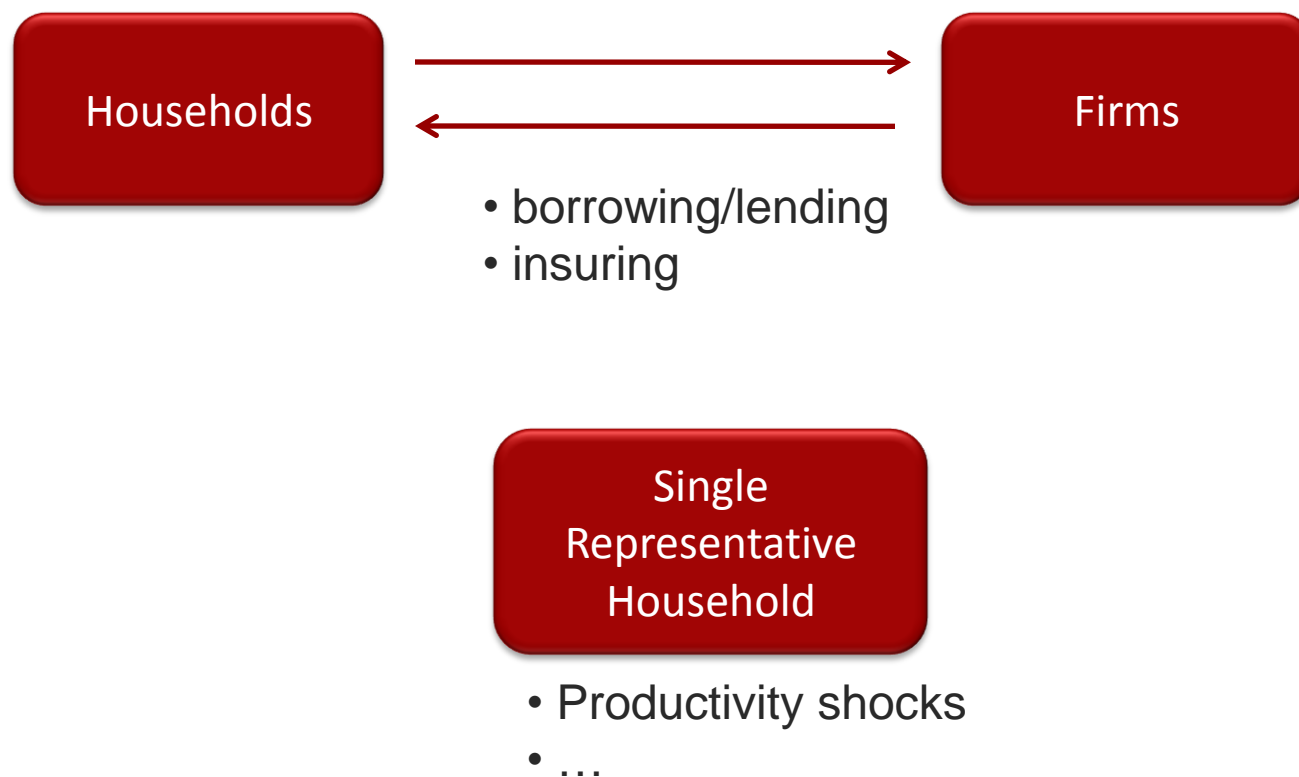
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## ■ Traditional Finance – Endowment Economy



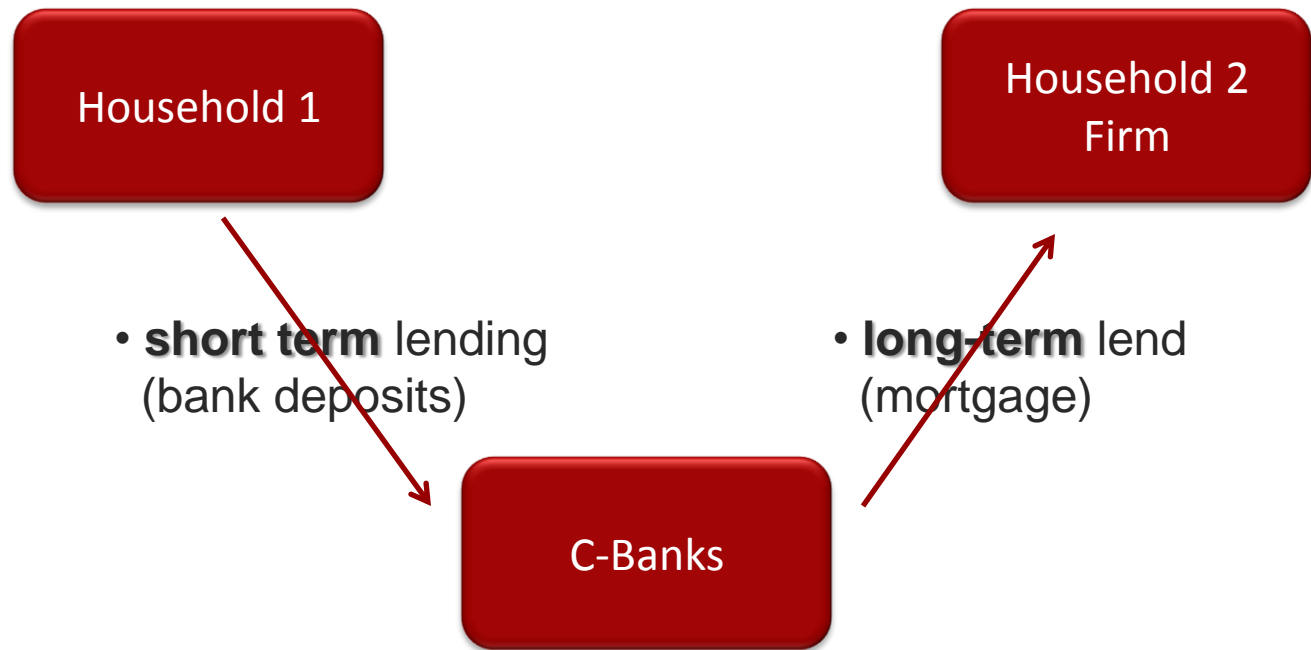
# || What's Institutional Finance?

## ■ Traditional Finance – Production Economy



# || What's Institutional Finance?

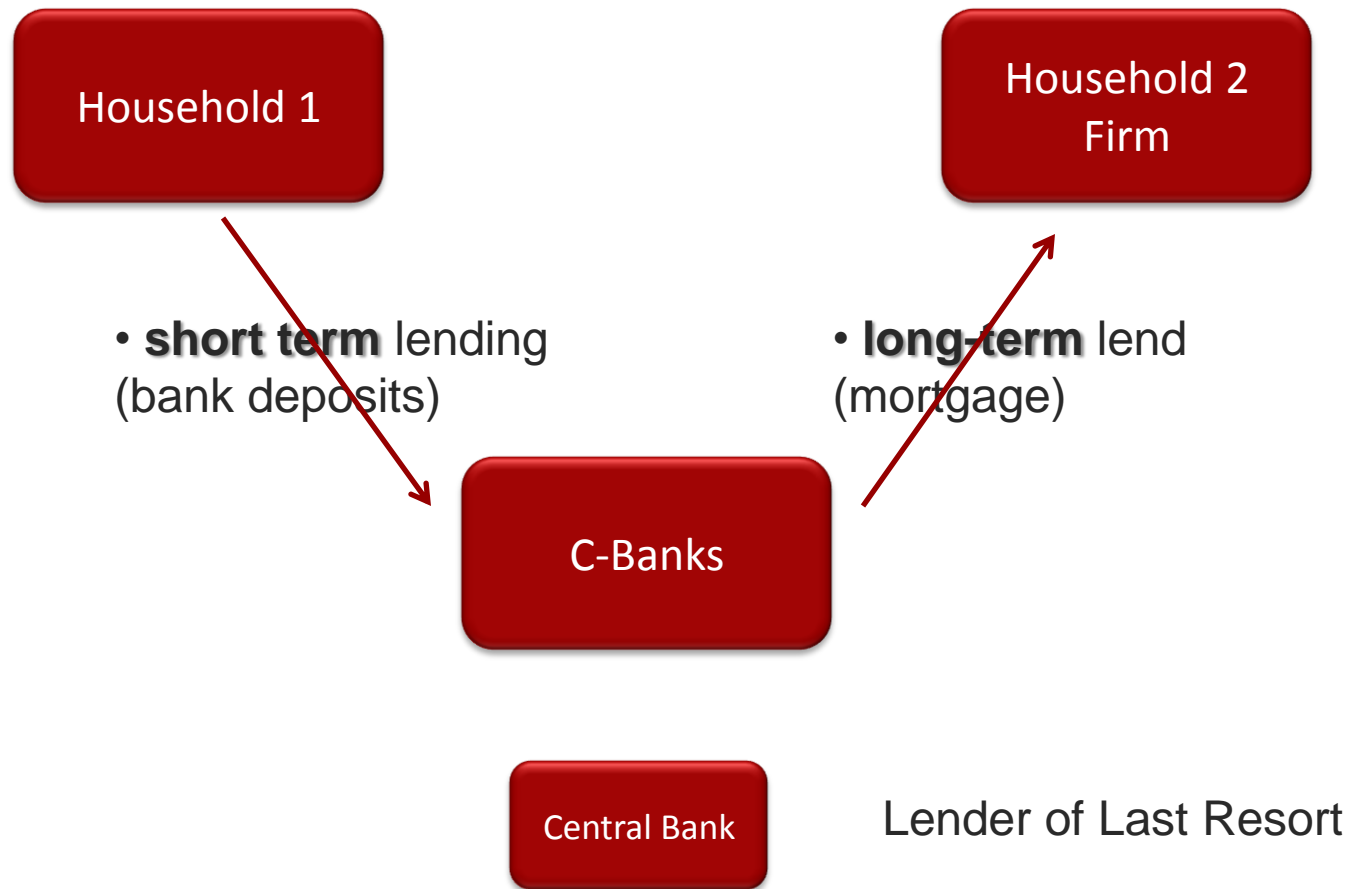
## ■ Traditional "Banking Finance"



Frictions might emerge  
e.g. bank-runs

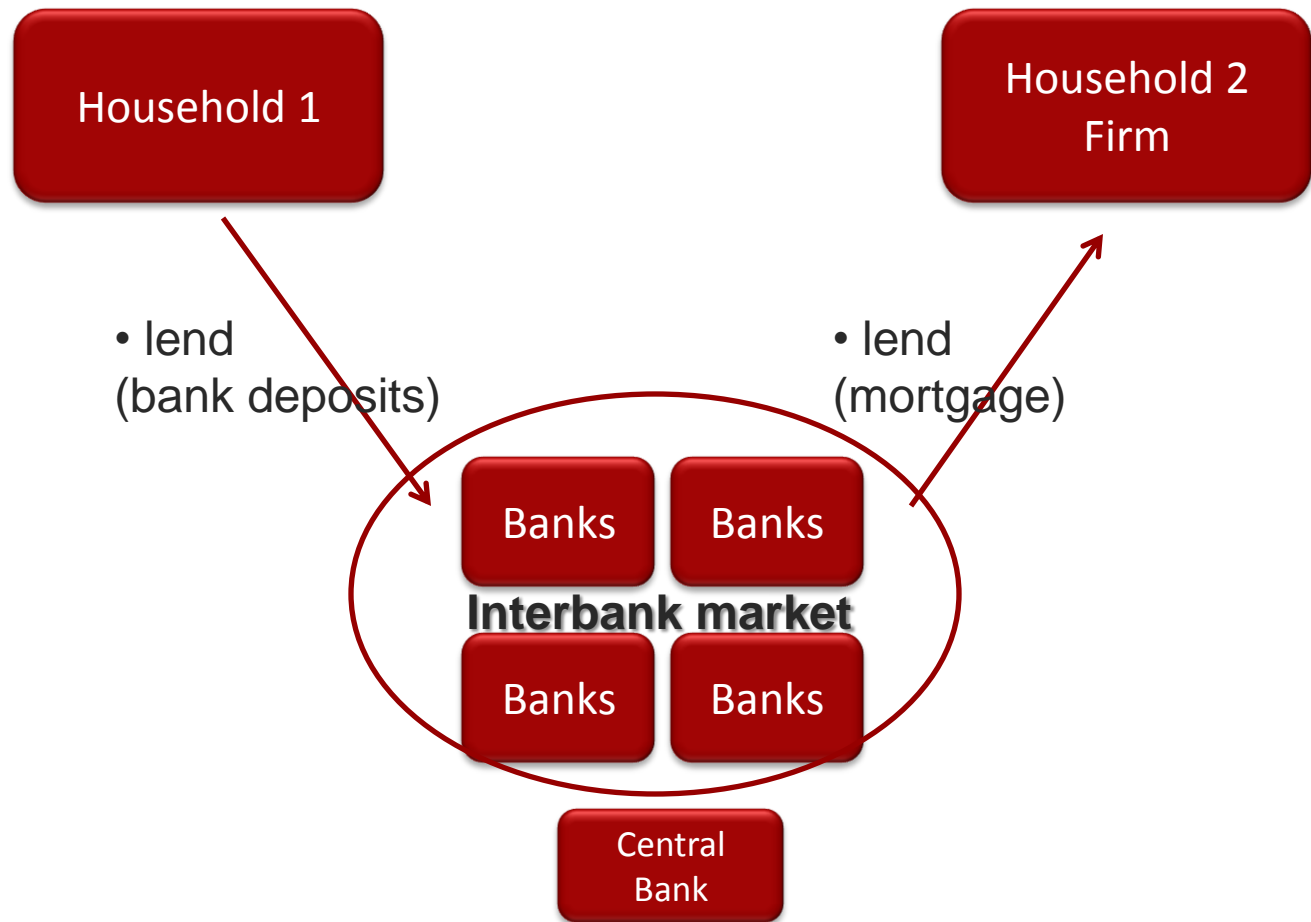
# || What's Institutional Finance?

## ■ Traditional "Banking Finance"



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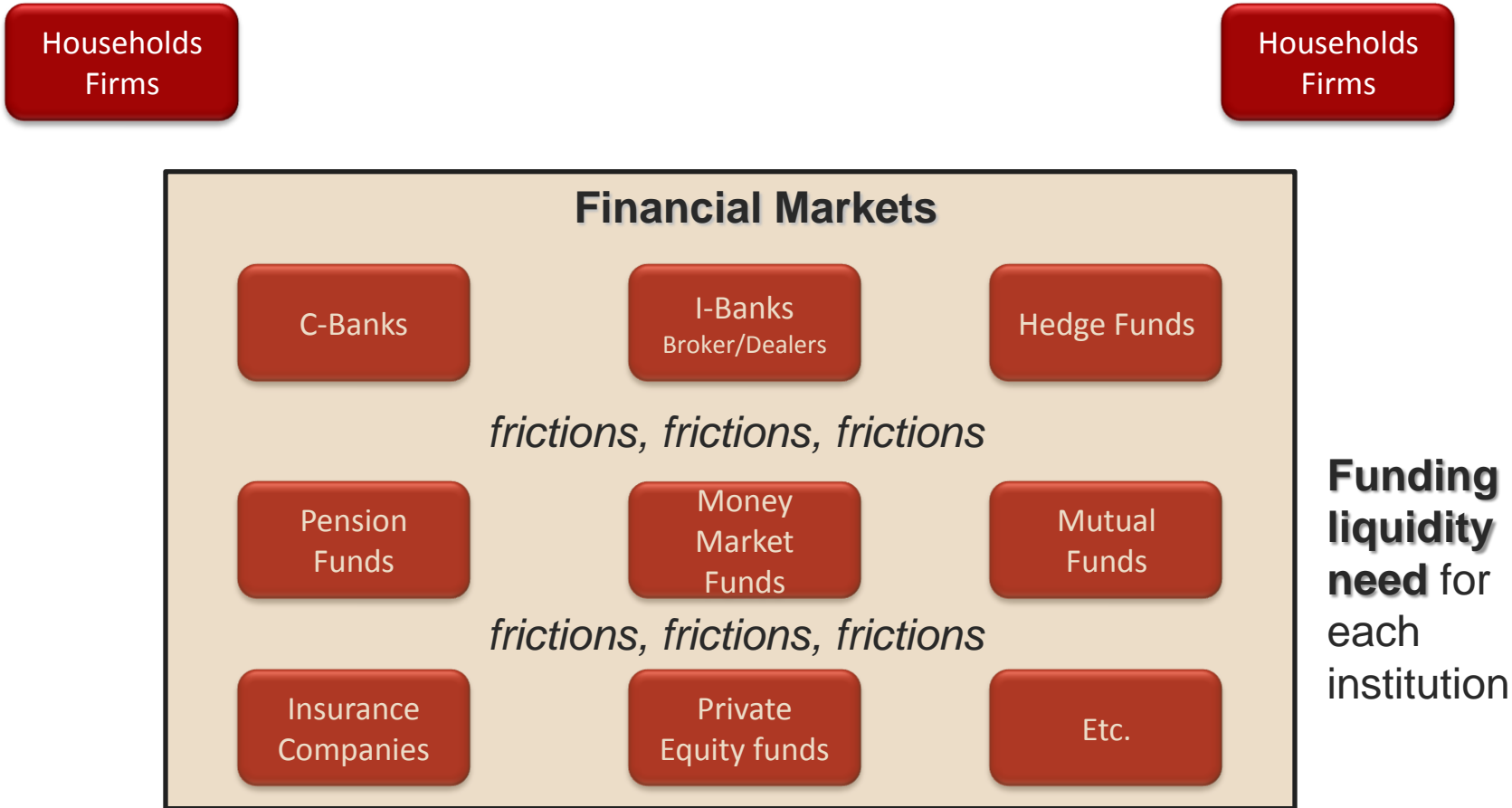
## ■ Traditional "Banking Finance"



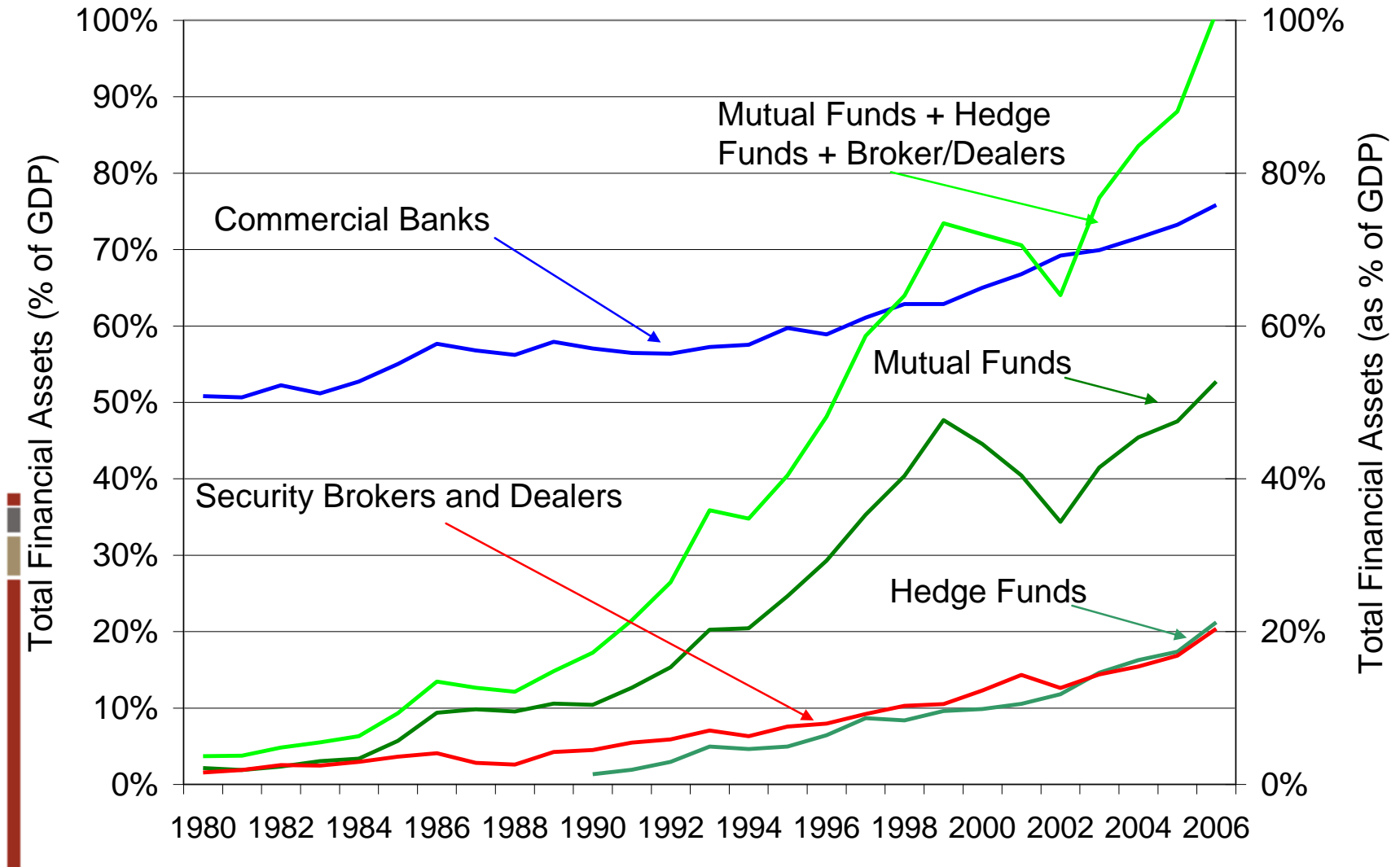


# || What's Institutional Finance?

- Modern “Institutional Finance”  
(originate and distribute banking model)



# || Total Financial Assets as % of GDP



## || ... and in Europe

Commercial Banks still have a larger fraction  
(universal banks)



# || Lending/Insuring vs. Trading

- Lending/Borrowing + Insuring
- = trading assets/securities
  - Bond
  - Stock
  - Derivatives, e.g. CDS
- At what price/rate?
  - How are different asset prices linked?
  - How do institutional investors constraint affect asset prices?  
(not only utility function of representative agent matters)