



WP/21/102

IMF Working Paper

Competition vs. Stability:
Oligopolistic Banking System with Run Risk

by Damien Capelle

***IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate.** The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

I N T E R N A T I O N A L M O N E T A R Y F U N D

IMF Working Paper

Research Department

Competition vs. Stability: Oligopolistic Banking System with Run Risk¹

Prepared by Damien Capelle

Authorized for distribution by Maria Soledad Martinez Peria

April 2021

IMF Working Papers describe research in progress by the author(s) and are published to elicit comments and to encourage debate. The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Abstract

This paper develops a model where large financial intermediaries subject to systemic runs internalize the effect of their leverage on aggregate risk, returns and asset prices. Near the steady-state, they restrict leverage to avoid the risk of a run which gives rise to an accelerator effect. For large adverse shocks, the system enters a zone with high leverage and possibly runs. The length of time the system remains in this zone depends on the degree of concentration through a franchise value, price-drop and recapitalization channels. The speed of entry of new banks after a collapse has a stabilizing effect.

JEL Classification Numbers: Bank runs, oligopolistic competition, shadow banks

Keywords: E32, E44, G01, G21, G33, L13

Author's E-Mail Address: dcapelle@imf.org

¹ I am grateful to Nobuhiro Kiyotaki for his continued and invaluable support in this project. I thank the participants of the Princeton macro lunch seminar, Divya Kirti and Maria Soledad Martinez Peria for helpful comments. All errors are my own. The views expressed therein are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.