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Philippine Center for
Economic Development

present a seminar on

Interbank funding as insurance mechanism for (persistent) liquidity shocks

by

Mr. Marcel Bluhm

27 November 2015, Friday

4:00-5:00 p.m. – Room 303

Abstract:

The interbank market is important for the efficient functioning of the financial system, transmission of monetary policy and therefore ultimately the real economy. In particular, it facilitates banks' liquidity management. This paper aims at extending the literature which views interbank markets as mutual liquidity insurance mechanism by taking into account persistence of liquidity shocks. Following a theory of long-term interbank funding a financial system which is modeled as a micro-founded agent based complex network interacting with a real economic sector is developed. The model features interbank funding as an over-the-counter phenomenon and realistically replicates financial system phenomena of network formation, monetary policy transmission and endogenous money creation. The framework is used to carry out an optimal policy analysis in which the policymaker maximizes real activity via choosing the optimal interest rate in a trade-off between loan supply and financial fragility. It is shown that the interbank market renders the financial system more efficient relative to a setting without mutual insurance against persistent liquidity shocks and therefore plays a crucial role for welfare.

About the speaker:

Marcel Bluhm is Assistant Professor of Economics at the Wang Yanan Institute for Studies in Economics, Xiamen University in China, and a Research Fellow at the Center for Financial Studies, Goethe University Frankfurt in Germany.

Bluhm did his undergraduate coursework in Economics at Université d'Angers in France and his graduate studies at Goethe University Frankfurt in Germany. He holds the French undergraduate diploma (DEUG) and the German graduate diploma (Diplomvolkswirt) as well as the Ph.D. (Dr. rer. pol.) in economics. Bluhm has published on a variety of topics in financial stability and monetary policy. He has been the recipient of various teaching awards, both at the undergraduate and graduate level.

Bluhm's research is on economic growth, financial stability and monetary policy.



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