1. Record Nr. UNINA9910786474303321

Autore	Boot Arnoud
Titolo	Banking and Trading / / Arnoud Boot, Lev Ratnovski
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2012
ISBN	1-4755-1248-1 1-4755-1246-5
Descrizione fisica	1 online resource (49 p.)
Collana	IMF Working Papers IMF working paper ; ; WP/12/238
Altri autori (Persone)	RatnovskiLev
Soggetti	Banks and banking Stocks Banks and Banking Finance: General Taxation Industries: Financial Services Money and Monetary Policy Financial Risk Management Banks Depository Institutions Micro Finance Institutions Mortgages Investment Banking Venture Capital Brokerage Ratings and Ratings Agencies Financial Institutions and Services: Government Policy and Regulation Financing Policy Financial Risk and Risk Management Capital and Ownership Structure Value of Firms Goodwill General Financial Markets: Government Policy and Regulation Taxation, Subsidies, and Revenue: General Monetary Policy, Central Banking, and the Supply of Money and Credit: General Financial Crises Banking Finance

Public finance & taxation
Monetary economics
Economic & financial crises & disasters
Lines of credit
Moral hazard
Bank soundness
Tax incentives
Financial institutions
Financial sector policy and analysis
Credit
Money
Financial crises
Loans
Financial risk management
United States

Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Description based upon print version of record.
Nota di bibliografia	Includes bibliographical references.
Nota di contenuto	Cover; Contents; I. Introduction; II. Relationship to the Literature; III. Model; A. Approach; B. Credit Constraints; C. Banking; D. Trading; IV. Benefits of Conglomeration; V. Time Inconsistency of Capital Allocation; A. Setup: Long-term Banking; B. The Consequences of Time Inconsistency; C. Cost of Conglomeration under Time Inconsistency; VI. Trading as Risk-Shifting; A. Setup: Risky Trading; B. Risk-Shifting; C. The Interaction of Time Inconsistency and Risk Shifting; VII. Discussion; A. Front-loaded Income in Relationship Banking; B. External Equity and Internal Capital Allocation C. Policy Implications VIII. Conclusion; References; Figures; 1. The Timeline; 2. The Timeline with Time Inconsistency; 3. Relationship Banking Allocation R as a Function of Trading Opportunities; 4. The Volume of Banking (R) and Trading (T), and Profits ()under Conglomerated Banking; 5. The Volumes of Banking (R)and Trading (T), and Profits () with Risk-shifting; 6. Time Inconsistency Arises due to a Higher Return to Trading under Risk-shifting ("Effect 1"); 7. Risk-shifting Arises due to a Higher Volume of Trading, Driven by Time Inconsistency ("Effect 2")
Sommario/riassunto	We study the effects of a bank's engagement in trading. Traditional banking is relationship-based: not scalable, long-term oriented, with high implicit capital, and low risk (thanks to the law of large numbers). Trading is transactions-based: scalable, shortterm, capital constrained, and with the ability to generate risk from concentrated positions. When a bank engages in trading, it can use its ‘spare’ capital to profitablity expand the scale of trading. However, there are two inefficiencies. A bank may allocate too much capital to trading ex-post, compromising the incentives to build relationships ex-ante. And a bank may use trading for risk-shifting. Financial development augments the scalability of trading, which initially benefits conglomeration, but beyond some point inefficiencies dominate. The deepending of the

financial markets in recent decades leads trading in banks to become increasingly risky, so that problems in managing and regulating trading in banks will persist for the foreseeable future. The analysis has implications for capital regulation, subsidiarization, and scope and scale restrictions in banking.