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Banks and Banking
Banks and banking
Banks
Computable and Other Applied General Equilibrium Models
Depository Institutions
Econometric models
Econometrics & economic statistics
Econometrics
Finance
Finance: General
Financial risk management
General equilibrium models
General Financial Markets: General (includes Measurement and Data)
General Financial Markets: Government Policy and Regulation
Income economics
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Sommario/riassunto	We study a simple general equilibrium model in which investment in a risky technology is subject to moral hazard and banks can extract market power rents. We show that more bank competition results in lower economy-wide risk, lower bank capital ratios, more efficient production plans and Pareto-ranked real allocations. Perfect competition supports a second best allocation and optimal levels of bank risk and capitalization. These results are at variance with those obtained by a large literature that has studied a similar environment in partial equilibrium. Importantly, they are empirically relevant, and demonstrate the need of general equilibrium modeling to design financial policies aimed at attaining socially optimal levels of systemic risk in the economy.