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	Autore	Georgiou Andréas
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Nota di contenuto	Intro -- Contents -- I. Introduction -- II. The Analytical Framework -- A. The Basic Model -- B. Different Sources of Finance -- C. Choice of Project Riskiness -- D. Change in the Cost of Loanable Funds -- E. Changes in the Probability Distribution Function of the Debt-Financed Project -- III. Some Thoughts on Policy Implications -- IV. Conclusion -- Appendix -- References.
Sommario/riassunto	The financial crisis that began in 2007 has brought to the fore the issues of excesses in lending, leverage, and risk-taking as some of the fundamental causes of this crisis. At the same time, in dealing with the financial crisis there have been large scale interventions by governments, often referred to as bailouts of the lenders. This paper presents a framework where rational economic agents engage in ex ante excessive lending, borrowing, and risk-taking if creditors assign a positive probability to being bailed out. The paper also offers some thoughts on policy implications. It argues that it would be most productive for the long run if lending institutions were not bailed out. If the continuing existence of an institution was deemed essential, assistance should take the form of capital injections that dilute the equity of existing owners.