Public and Private Liquidity Providers

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Abstract

The goal of this paper is to explore the benefits of having a private liquidity provider and the conditions under which this lender provides liquidity, when a public liquidity provider is also present. The model proposed incorporates an endogenous interbank lending market so that the decision of a bank to seek liquidity in the interbank market or to turn to the private or the public lender is also endogenous. This framework permits the derivation of conclusions on the size of the private lender, interbank lending conditions and optimal policy for liquidity provision.

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