



Universität
Basel

Research Project

Free-riding on Liquidity

Project funded by own resources

Project title Free-riding on Liquidity

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Organisation / Research unit

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Project Website <https://ideas.repec.org/p/zur/econwp/032.html>

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Do financial market participants free-ride on liquidity? To address this question, we construct a dynamic general equilibrium model where agents face idiosyncratic preference and technology shocks. A secondary financial market allows agents to adjust their portfolio of liquid and illiquid assets in response to these shocks. The opportunity to do so reduces the demand for the liquid asset and, hence, its value. The optimal policy response is to restrict (but not eliminate) access to the secondary financial market. The reason for this result is that the portfolio choice exhibits a pecuniary externality: An agent does not take into account that by holding more of the liquid asset, he not only acquires additional insurance but also marginally increases the value of the liquid asset which improves insurance to other market participants.

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ID	Kreditinhaber	Kooperationspartner	Institution	Laufzeit - von	Laufzeit - bis
2740264	Berentsen, Aleksander	Huber, Samuel	University of Basel	01.09.2011	31.08.2015
2740265	Berentsen, Aleksander	Marchesiani, Alessandro	University of Minho	01.09.2011	31.08.2015