

**Titolo del progetto: THE ARCHITECTURE OF MARKETS AND INSTITUTIONS AFTER THE CRISIS:
THEORETICAL FOUNDATIONS AND POLICY IMPLICATIONS**

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Abstract:

All the participants to the research project share the view that financial markets imperfections may have a major role in generating, transmitting and amplifying economic instability, as well as in affecting the long run growth path of an economy. Accordingly, the main goal of the project is to analyze the functioning of financial markets and intermediaries, with an explicit focus on the frictions that plague them, such as asymmetric information and limited commitment, in order to highlight the possible inefficiencies and suggest policy remedies or regulation recommendations. On the theoretical side, the project will study the consequences of limited commitment and enforcement for the functioning of – possibly incomplete- markets, in a context with potential informational asymmetries, contract incompleteness and non-exclusivity. In particular, non-exclusivity of contracts has been shown to amplify the impact of adverse selection, inducing severe form of rationing and more research is needed to improve on the equilibrium analysis of financial markets under non-exclusivity. With the proper theoretical foundations in place, the project will focus also on the macroeconomic implications of frictional financial markets, for both the short and long run. This part of the research project aims at building a bridge between the traditional innovation-based endogenous growth literature and the literature on macroeconomic dynamics with financial frictions, in its two main declinations: the traditional business cycle “financial” theories that emphasize the role of borrowers' balance sheets and those that emphasize the role of limited commitment of debt obligations. The results of the project, while contributing, on the theoretical side, to the understanding of the working of frictional financial markets and of its macroeconomic implications, are also expected to provide significant improvements for policy analysis, in a context of renewed interests in productivity and growth enhancing credit and fiscal policies. The project will try to uncover the plausible future dynamics in credit and financial markets in particular in the Eurozone, and their implications in terms of economic growth and development. Two issues will deserve careful investigation: the role of macroprudential policies, such as the ones initiated by the ECB, like collateral constraints on borrowing and/or lending, and the role of financial markets in transmitting monetary and fiscal policy, especially when the economy is up against the zero lower bound.

Given the broad scope of the analysis and the many topics under investigation, many research units are involved in the project, and different research methodologies, going from the development of

theoretical models to empirical approaches dedicated to the evaluation of the effect of policy and regulatory interventions, will be applied.

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