

GRUPPO ALEA
DIPARTIMENTO DÌ INFORMATICA E STUDI AZIENDALI

**INEFFICIENT PROVISION OF INSIDE
MONEY BY BANKS**

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3.00 PM – Faculty of Economics conference room
Via Inama, 5 – Trento

We study the role of banks in creating inside money. We show that, even in the absence of asymmetric information or an agency problem, the private provision of inside money is inefficient. The reason is that inside money affects prices and the welfare of non-bank customers, and banks do not internalize this. Under competition, banks tend to generate too much money relative to what is socially efficient, while a monopolistic bank chooses too little money. We argue that a regulator can eliminate these inefficiencies by promoting competition and imposing a ceiling on the loan-to-deposit ratio of each bank.