

**Date of the event:**

On Thursday, 24<sup>th</sup> November, 2011  
From 01:00 PM to 2:00 PM

**Location:**

Luxembourg School of Finance  
University of Luxembourg  
4 Rue Albert Borschette  
2<sup>nd</sup> Floor  
Modigliani Miller Auditorium (E02-003)  
L-1246 Luxembourg

**Registrations:**

- Free seminar (with lunch included)
- Registrations by email before November 21st, 2011
- At the following address : [lsf-events@uni.lu](mailto:lsf-events@uni.lu)

**Information:**

Ms Martine Zenner  
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following  
lunch seminar:

***Liquidity, Contagion and Crisis***

*By Professor Alexander Guembel*  
*Universtiy of Toulouse*

**Thursday, 24<sup>th</sup> November 2011**  
**From 01:00 PM to 2:00 PM**

## *Liquidity, Contagion and Financial Crisis*

The Luxembourg School of Finance

Is pleased to invite you to the

**LSF Seminar**

We develop a theoretical model where a redistribution of bank capital (e.g., due to reckless trading and/or faulty risk management) leads to a “freeze” of the interbank market. The fire-sale market plays a central role in spreading the crisis to the real economy. In crisis, credit rationing and liquidity hoarding appear simultaneously; endogenous levels of collateral (or margin requirements) are affected by both low fire-sale prices and high lending rates. Relative to previous analysis, this dual channel generates a stronger price and output effect. The main focus is on the policy analysis. We show that i) non-discriminating equity injections are more effective than liquidity injections, but in both the welfare effects an order-of-magnitude lower than the price effect; ii) a discriminating policy that bails out only distressed banks is feasible but will be limited by incentive-compatibility constraints; iii) a restriction on international capital flows has an ambiguous effect on welfare.