

(/)

[Home \(/\)](#) / [A-Z Publications \(/content/publications\)](#) / [Annual Review of Financial Economics \(/content/journals/financial\)](#) / [Volume 3, 2011 \(/content/journals/financial/3/1\)](#) / Article

ANNUAL REVIEW OF FINANCIAL ECONOMICS (/content/journals/financial). **Volume 3, 2011**

(/content/journals/financial/3/1).

Financial Intermediary Balance Sheet Management

[Tobias Adrian \(/search?](#)

[value1=Tobias+Adrian&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#)¹, and [Hyun Song Shin \(/search?](#)

[value1=Hyun+Song+Shin&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#)²

➕ View Affiliations

Vol. 3:289-307 (Volume publication date December 2011)

First published as a Review in Advance on September 09, 2011

© Annual Reviews

Conventional discussions of balance sheet management by nonfinancial firms take the set of positive net present value (NPV) projects as given, which in turn determines the size of the assets of the firm. The focus is on the composition of equity and debt in funding such assets. In contrast, the balance sheet management of financial intermediaries reveals that it is equity that behaves like the predetermined variable, and the asset size of the bank or financial intermediary is determined by the degree of leverage that is permitted by market conditions. The relative stickiness of equity reveals possible non-pecuniary benefits to bank owners so that they are reluctant to raise new equity, even during boom periods when equity raising is associated with less stigma, and hence smaller discounts. We explore the empirical evidence for both market-based financial intermediaries such as the Wall Street investment banks, as well as the commercial bank subsidiaries of the large U.S. bank holding companies (BHCs). We further explore the aggregate consequences of such behavior by the banking sector for the propagation of the financial cycle and securitization.

Keyword(s): [capital \(/search?value1=%22capital%22&option1=pub_keyword\)](#), [debt \(/search?value1=%22debt%22&option1=pub_keyword\)](#), [leverage \(/search?value1=%22leverage%22&option1=pub_keyword\)](#), [procyclicality \(/search?value1=%22procyclicality%22&option1=pub_keyword\)](#).

Article Type: Review Article

Most Read This Month

Climate Finance (/content/journals/10.1146/annurev-financial-102620-103311)

Stefano Giglio, Bryan Kelly and Johannes Stroebel
pp. 15–36 (22)

Corporate Culture (/content/journals/10.1146/annurev-financial-092321-124541)

Gary B. Gorton, Jillian Grennan and Alexander K. Zentefis
pp. 535–561 (27)

The Pricing and Ownership of US Green Bonds (/content/journals/10.1146/annurev-financial-111620-014802)

Malcolm Baker, Daniel Bergstresser, George Serafeim and Jeffrey Wurgler
pp. 415–437 (23)

Tim Loughran and Bill McDonald
pp. 357–375 (19)

Long-Run Asset Returns (/content/journals/10.1146/annurev-financial-082123-105515)

David Chambers, Elroy Dimson, Antti Ilmanen and Paul Rintamäki
pp. 435–458 (24)

Most Cited

 (/rss/content/journals/financial/mostcitedarticles?fmt=rss)

The Real Effects of Financial Markets (/content/journals/10.1146/annurev-financial-110311-101826)

[Philip Bond \(/search?](#)

[value1=Philip+Bond&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), [Alex Edmans \(/search?value1=Alex+Edmans&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), and

[Itay Goldstein \(/search?](#)

[value1=Itay+Goldstein&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#).

Vol. 4 (2012), pp. 339–360

Climate Finance (/content/journals/10.1146/annurev-financial-102620-103311)

[Stefano Giglio \(/search?](#)

[value1=Stefano+Giglio&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), [Bryan Kelly \(/search?value1=Bryan+Kelly&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), and

[Johannes Stroebe \(/search?](#)

[value1=Johannes+Stroebe&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#).

Vol. 13 (2021), pp. 15–36

Financialization of Commodity Markets (/content/journals/10.1146/annurev-financial-110613-034432)

[Ing-Haw Cheng \(/search?value1=Ing-](#)

[Haw+Cheng&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), and [Wei Xiong \(/search?value1=Wei+Xiong&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#).

Vol. 6 (2014), pp. 419–441

A Survey of Systemic Risk Analytics (/content/journals/10.1146/annurev-financial-110311-101754)

[Dimitrios Bisias \(/search?](#)

[value1=Dimitrios+Bisias&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), [Mark Flood \(/search?value1=Mark+Flood&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), [Andrew W. Lo \(/search?](#)

[value1=Andrew+W.+Lo&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), and [Stavros Valavanis \(/search?](#)

[value1=Stavros+Valavanis&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#).

Vol. 4 (2012), pp. 255–296

CEO Compensation (/content/journals/10.1146/annurev-financial-120209-133958)

[Carola Frydman \(/search?](#)

[value1=Carola+Frydman&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#), and [Dirk Jenter \(/search?value1=Dirk+Jenter&option1=author&noRedirect=true&sortField=prism_publicationDate&sortDescending=true\)](#).

Vol. 2 (2010), pp. 75–102

+ More

