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# Financialization and the Monetary Circuit: A Macro-accounting Approach

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Bellofiore at the University of Bergamo in 2010-2011. The current version has greatly



Nevertheless, for the sake of simplicity, in the rest of the paper we will continue to assume that banks use all of their retained earnings to purchase equities.

<sup>8</sup>It is a simple matter to demonstrate that this method leads to results that are equivalent to cost-plus pricing.

<sup>9</sup>This suggests that implementation of an expansionary monetary policy by the central bank via the reduction of interest rates may have a 'crowding out' effect on traditional banking activity unless it is offset by a strict regulation of the financial services industry.

<sup>10</sup>One might be tempted to think that asset inflation can have only microeconomic effects but no macroeconomic consequences, since capital gains realized by some units (either households or corporations) offset capital losses suffered by others. However, this is not true whenever: (i) there is asymmetric information, so that agents realizing capital gains react more quickly than agents suffering capital losses; (ii) capital gains and losses entail a redistribution of income among different sectors; or (iii) bank loans are linked to the value of assets, allowing agents to realize capital gains immediately.

<sup>11</sup> Figure 2 shows that, if the stock buyback is 'internal' to the corporate sector, then the households sector cannot draw from the financial market the liquidity it needs to pay off its debt.

... bank loans, as the p..., thanks of the inflow... of financial assets fr... at corporat... e to pay off part of t... with the risk of a... s describe two diffe... nd, the finan... s) has been associat... y new issues. On the c... wings (mainly... ctor) and increase... 2000 and 2007 (Pa...

<sup>12</sup>Govern... t an additional source of funds for the private sector. The same goes for balance of

payments surpluses. In the Euro Area, the financial condition of countries marked by external surpluses may be easily likened to that of corporations depicted in Figure 2, whereas the situation of deficit countries can be likened to that of the household sector. In both cases, behind the appearance of sustainability, there are increasing imbalances between sectors or countries, which are bound to lead to financial fragility and to crisis.

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