



## Inside and Outside Liquidity

By Bengt Holmstrom, Jean Tirole

MIT Press Ltd. Paperback. Book Condition: new. BRAND NEW, Inside and Outside Liquidity, Bengt Holmstrom, Jean Tirole, Why do financial institutions, industrial companies, and households hold low-yielding money balances, Treasury bills, and other liquid assets? When and to what extent can the state and international financial markets make up for a shortage of liquid assets, allowing agents to save and share risk more effectively? These questions are at the center of all financial crises, including the current global one. In Inside and Outside Liquidity, leading economists Bengt Holmstrom and Jean Tirole offer an original, unified perspective on these questions. In a slight, but important, departure from the standard theory of finance, they show how imperfect pledgeability of corporate income leads to a demand for as well as a shortage of liquidity with interesting implications for the pricing of assets, investment decisions, and liquidity management. The government has an active role to play in improving risk-sharing between consumers with limited commitment power and firms dealing with the high costs of potential liquidity shortages. In this perspective, private risk-sharing is always imperfect and may lead to financial crises that can be alleviated through government interventions.



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