Banking and Cyclical Bubbles

Tarishi Matsuoka*

Abstract

This paper presents a monetary growth model where spatial separation and limited communication create endogenous roles for money and banks. The economy can exhibit two different regimes. In the first one, money is dominated asset, and banks economize reserves. In the second one, money has the same return as capital, and banks use reserves as storage. I show that the economy can experience the regime switching between the two regimes, and the cyclical bubbles can occur.

Key words: overlapping generations, random relocation, banks, bubbles.
JEL Classification: D90, E32, E44

*Japan Society for the Promotion of Science and Graduate School of Economics, Kyoto University, Japan, Email: tarishi727@gmail.com