

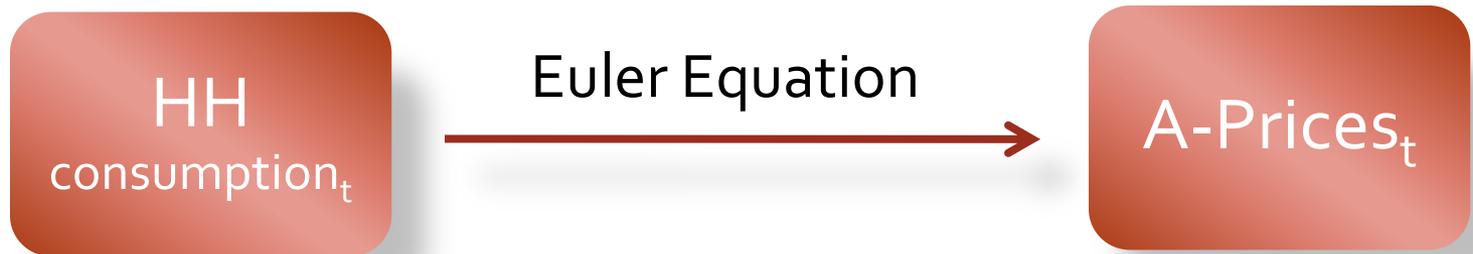


INSTITUTIONAL FINANCE

ECO 575 by MARKUS BRUNNERMEIER

Repr. Agent Euler Equation Finance

- No (funding) friction → Financial sector is a veil
 - LOOP (pricing redundant assets)
 - Perfect aggregation

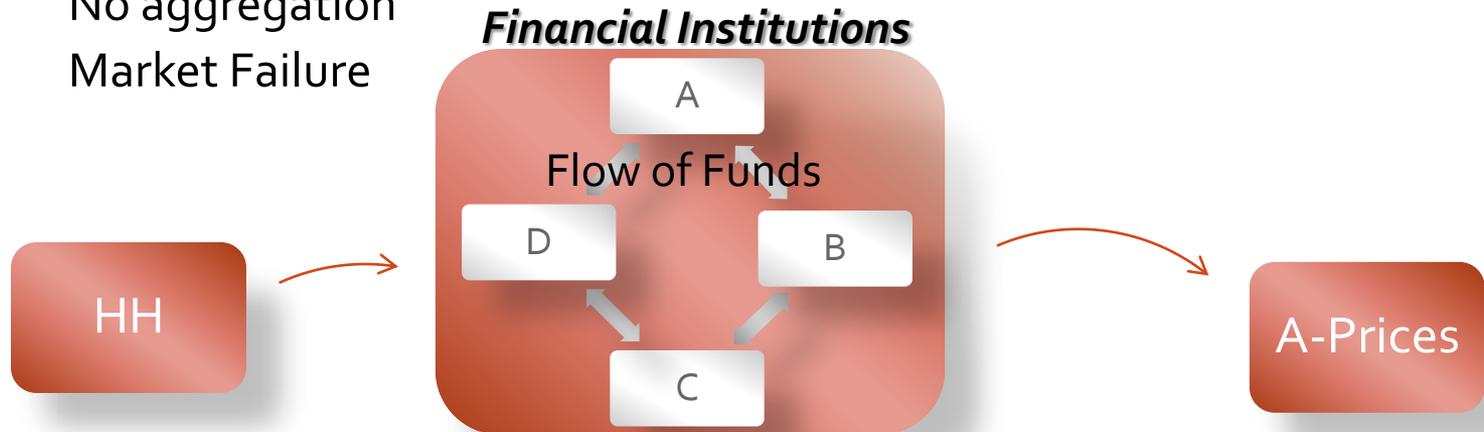


→ Study representative household's

- More and more **exotic preferences**/utility functions
- More exotic beliefs (behavioral) + survey evidence
- Non-falsifiable risk dynamic

“Institutional Finance”

- Funding frictions are at the center
investors with expertise rely on funding w/o expertise
 - Relative asset pricing LOOP can fail when funding is tight
 - Absolute asset pricing
 - No aggregation
 - Market Failure



→ Study:

- **Flow of funds**
- **Shadow cost of funding for institutions (funding liquidity)**