

Accepted Manuscript

Securitization bubbles: Structured finance with disagreement about default risk

Tobias Broer

PII: S0304-405X(17)30311-2
DOI: [10.1016/j.jfineco.2017.12.001](https://doi.org/10.1016/j.jfineco.2017.12.001)
Reference: FINEC 2834

To appear in: *Journal of Financial Economics*



Please cite this article as: Tobias Broer, Securitization bubbles: Structured finance with disagreement about default risk, *Journal of Financial Economics* (2017), doi: [10.1016/j.jfineco.2017.12.001](https://doi.org/10.1016/j.jfineco.2017.12.001)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Securitization bubbles: Structured finance with disagreement about default risk

Tobias Broer * ^{1,2}

¹Institute for International Economic Studies, Stockholm
University, Stockholm, Sweden

²Centre for Economic Policy Research, London, UK

Abstract

An additional reason for the structured finance boom of the 2000s may have been disagreement about default risk of collateral assets. When risk-neutral investors disagree about average default probabilities, structuring collateral cash flow raises prices by concentrating optimists' demand on risky tranches. With disagreement about default correlation, low-correlation investors believe in diversification and pay high prices for senior tranches they deem riskless. High-correlation investors value junior tranches they expect to pay whenever aggregate conditions are good. Risk aversion and short selling through credit default swaps reduce the prices of both pass-through and structured securitizations but may increase the return to tranching.

*I thank Markus Brunnermeier for a discussion that inspired this paper. I also thank Jungsuk Han, Patrick Augustin, Nicholas Barton, Christoph Bertsch, Paolo Frumento, Piero Gottardi, Alexandre Kohlhas, Per Krusell, Vincent Maurin, Alex Michaelides, Kurt Mitman, and an anonymous referee, as well as participants at the First Annual Centre for Economic Policy Research Spring Symposium in Financial Economics and seminars at Sveriges Riksbank and the Institute for International Economic Studies for comments on a previous draft. John Kramer provided outstanding research assistance. Corresponding author. Tel.: +46 (0)8 16 30 56; Fax.: +46 8 16 14 43. E-mail address: tobias.broer@iies.su.se. (T. Broer)

Download English Version:

<https://daneshyari.com/en/article/7361939>

Download Persian Version:

<https://daneshyari.com/article/7361939>

[Daneshyari.com](https://daneshyari.com)