

Financial Crisis and Policy Intervention

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Market Failures

- **Market for lemons** in financial assets (Counterparty Risk)
- Mismatch between Demand and Supply
 - ▶ Shrinkage of demand in the US/ Excessive supply capacity
 - ▶ Increasing demand for reproducible energy, decreasing supply of fossil fuels
 - ▶ Increase in information asymmetry about firms' quality
 - ▶ Large **externality** and **Increasing>Returns-to-Scale (IRS)** in construction of infrastructure for new industries

Information Asymmetry

- **Liquidation** or **Rehabilitation of firms** resolve the information asymmetry
- **Government intervention** for corporate rehabilitation can resolve the externality of the market for lemons.

Industrial Policy

- Intervention is effective to control **Externality** and **IRS** in construction of infrastructure for new industries.