Unifying bank-run theories and (the trap of) financial integration

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When a banking model is extended to feature multiple queues, with risk sharing restricted by a sequential-service constraint analogous to that proposed by Wallace (1988), we find that direct mechanisms defined by solutions of the larger planner's problem can also implement bank runs. The result survives the disclosure of positions considered by Green and Lin (2003) and thus complements previous analysis by Allen and Gale (2000), Peck and Shell (2003) and others. It however offers the novel implication, not considered by Diamond and Dybvig (1983) seminal paper, that access to a lender of last resort can increase the provision of liquidity to the point of creating stronger conditions for formation of bank panic.