Repo, leverage and security bubbles

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Resumo/Abstract:
We examine the impact of repo regulation on leverage, Ponzi schemes and bubbles. Repo Ponzi schemes can be done by creditors who collect haircut and then reuse the collateral that was pledged to them. In bilateral repo, only dealers have such haircut benefit and regulation consists in limiting dealers' positions. In exchanges, the segregation of the haircut avoids Ponzi schemes. However, as we illustrate, both cases allow for bubbles when agents are not uniformly impatient. We also show that all agents may be worse off if repo markets were absent and that bubbles are robust to the endogenous issuance of the securities.