

## Financial Development and Financial Amplification

金融庁金融研究研修センター 平野 智裕

The traditional view about the relationship between the development of financial markets and volatility of the economy is that financial development stabilizes the economy. However, after the recent financial crisis of 2007/8, a new view appeared: financial development destabilizes the economy by accelerating financial amplification. Why do we observe such seemingly contradicting views? Does financial development lead to instability while enhancing efficiency? This paper develops a theoretical model to answer these questions and attempts to reconcile both classical and new views. We find that the relationship becomes nonlinear: financial amplification initially increases with financial development and later falls down. Moreover, we examine the role of monetary policy to dampen amplification, and its welfare implications.