



Research Working Papers

Financing Modes and Lender Monitoring

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Can banks and shadow banks coexist in the absence of financial regulation and regulatory arbitrage?

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Shadow banks are widely believed to be a creation of financial regulation and regulatory arbitrage. We show that bank and nonbank modes of financing can emerge endogenously in a simple borrower-lender framework absent regulatory arbitrage or policy interventions. The coexistence of banks and shadow banks in the absence of regulatory intervention speaks to the importance of shadow banks as alternative modes of financial intermediation. We explore the scope of regulation in determining the size and location of shadow banking, as opposed to how regulation can be designed to curtail shadow bank activities.

JEL Classifications: D82, G21, G28, G32, L25

Article Citations

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Related Research

- Martínez-Miera, David, and Rafael Repullo. 2027. "Search for Yield." *Econometrica*, vol. 85, no. 2, pp. 351–378. Available at <https://doi.org/10.3982/ECTA14057>
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