The Economics of Bank Restructuring: Understanding the Options

Author/Editor: Augustin Landier, Kenichi Ueda

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Summary: Based on a simple framework, this note clarifies the economics behind bank restructuring and evaluates various restructuring options for systemically important banks. The note assumes that the government aims to reduce the probability of a bank’s default and keep the burden on taxpayers at a minimum. The note also acknowledges that the design of any restructuring needs to take into consideration the payoffs and incentives for the various key stakeholders (i.e., shareholders, debt holders, and government).

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