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The Joint Production of Confidence: Endogenous Regulation and Nineteenth Century Commercial-Bank Clearinghouses

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Summary

In section 1, we discuss the importance of the banking product mix during the nineteenth century from the viewpoint of information costs. Section 2 describes the role of the CBCH as a monitor/supervisor which provides valuable "screening" services to both member banks and the public. Section 3 examines the behavior of the CBCH during financial panics. In response to the unusual information costs associated with a panic, the CBCH increased the amount of private regulation. The CBCH then reverted to its simpler organizational form following the conclusion of a panic. Private regulation declined and the role of "the market" as a control mechanism increased. Section 4 concludes.

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