**What we want to do?**

We want to develop a framework that helps studying the trade-offs involved in financial stability monitoring in economies in which profit-seeking institutions are interconnected via financial interdependencies. In particular, we study the problem of a social planner who regulates institutions to maximize the welfare of a representative investor. When designing her optimal policy, the planner takes into account that: (a) financial interdependencies among institutions may serve as propagation mechanisms of idiosyncratic shocks, and (b) different policies will drive different response from institutions.

**Why is this question important?**

Financial stability monitoring has received considerable attention in the aftermath of the financial crisis. Policymakers around the globe have created reforms that directly or indirectly aim to improve financial stability. However, the role played by the underlying network of interdependencies and changes in institutions’ behavior remains imperfectly understood.