

# Botta, Caverzasi, and Russo (2019) - When complexity meets finance: A contribution to the study of the macroeconomic effects of complex financial systems

April, 21th 2020

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**Background** Widespread attention to system and financial product complexity after the Great Recession.

**Supporting ideas** Defines financial complexity as both increase of financial instruments to real-side economics and the intrinsic complexity of financial products created by financial institutions.

**Aim** Analyze the macroeconomic effects of financial complexity on economic growth, macroeconomic stability and inequality

**Contribution**

**Relevance** Maps some complexity-financial strands. Endogenous boom-and-bust credit cycles.

**Methods** ABM-SFC approach with heterogeneous household sector. Includes positive feedbacks between households, productive non-financial firms, and financial institutions giving rise to endogenous boom-and-bust credit cycles. Propose an stage-approach in which model complexity increases gradually. **Commercial banks:** issue credit-money to households and non-financial firms. **Investment funds:** collects funds from households and allocates between financial assets available

**Results** Higher financial complexity leads to higher macroeconomic instability, income and wealth inequality and a more crisis-prone economic system

**Interesting findings** Proposes a SFC model with only one heterogeneous sector (households).

**Critics**

## Keywords

AB-SFC model  
financial complexity  
securitization

**Citation:** BOTTA, A.; CAVERZASI, E.; RUSSO, A. **When complexity meets finance: A contribution to the study of the macroeconomic effects of complex financial systems.** en. Apr. 2019. Publication Title: Working Papers

5SS: Botta, Caverzasi, and Russo (2019)

## Further readings

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## REFERENCES

BOTTA, A.; CAVERZASI, E.; RUSSO, A. **When complexity meets finance: A contribution to the study of the macroeconomic effects of complex financial systems.** en. Apr. 2019. Publication Title: Working Papers.