Discussion: Information Asymmetries and Spillover Risk in Settlement Systems, by Elizabeth Foote

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Basic Ideas

- Spillover of bad events across payments systems because of an information friction.
- Policy Conclusions: better dissemination of information, liquidity-saving mechanisms.
Two strategic players, bank A (participates in both systems) and bank D (participates only in one system)

- A is column player, D is row player
- Simplify the game: some of the details are irrelevant for the results
- \( p = \) probability that A and D are playing the bad game
- \( 1 - p = \) probability that A and D are playing the good game
- A knows what game they are playing; D does not.
### Payoffs

**Bad Game**

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<tr>
<td>E</td>
<td>((-a, -b))</td>
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<td>L</td>
<td>((-d, -f))</td>
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**Good Game**

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**Key Assumptions:**

- \(b < d\)
- \(a > d\)
- \(f > d\)
- \(pa < d\)
Results

- When A knows the state:
  - playing early is a dominant strategy in the good game.
  - mixed strategy equilibrium in the bad game.

- When A is uninformed:
  - A and D play early in both states.

- Conclusion: Information friction implies spillover, delay can be a good thing.
Could I reverse engineer the problem and issues from description of the game?

Is it useful to think about payments systems and policy without:

- asset prices
- an explicit treatment of central banking and central bank intervention
- an explicit treatment of the role played by collateral
- an explicit description of the assets and liabilities of the actors in the model
- an explicit description of actual payments