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Foreign banks and the doom loop

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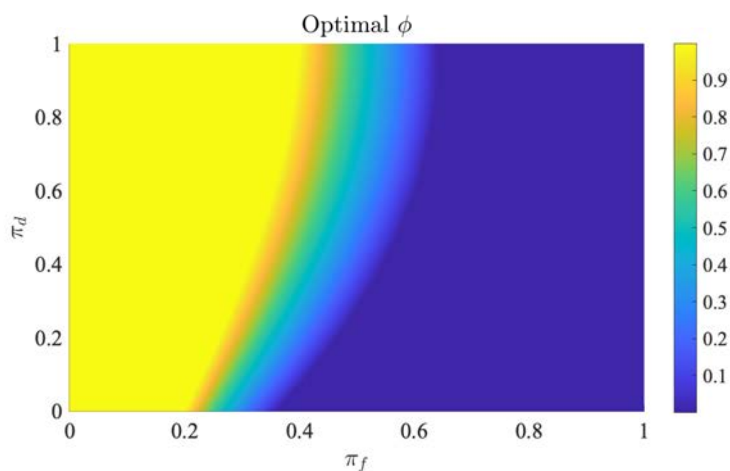
that they follow binomial distribution, with values 0 and 1. The optimisation problem is identical to the one in (8), but now the term $E(\Delta L)$ is not zero.

Similarly to Figure 2, the yellow region in Figure C1 indicates a combination of variances for which an economy populated by only foreign banks is optimal. Consistently with the findings of Section 6, Figure C1 suggests that, when the variance of the foreign sovereign shocks is low (in this case, below 0.2), a high share of foreign banks is preferable.

Figure C1: Optimal ϕ^* with binomial shocks



Note: The figure the optimal share of foreign banks in the local economy, ϕ^*, for given levels of the variance of domestic (σ_d^2) and foreign sovereign shocks (σ_f^2), where such shocks are assumed to be follow a binomial distribution with values 0 and 1.

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