Circulating Private Debt: An Example with a Coordination Problem

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We use a model of pure, intertemporal exchange with spatially and informationally separated markets to explain the existence of private securities that circulate and, hence, play a prominent role in exchange. The model, which utilizes a perfect-foresight equilibrium concept, implies that a Schelling-type coordination problem can arise. It can happen that the amounts of circulating securities that are required to support an equilibrium and that are issued at the same time in informationally separated markets must satisfy restrictions not implied by individual maximization and market clearing in each market separately.