

# The Information Contained in Money Market Interactions: Unsecured vs. Collateralized Lending

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## Abstract

We study the information contained in the interaction between unsecured and collateralized money markets. We present a model to capture probabilities of migration between lending segments, and probabilities of liquidity shocks (which move the trading-activity in both markets in the same direction). We apply our model to a novel dataset of European interbank-lending, and we show that useful information is obtained from money market interactions. We report that information captured by our model describes historical macroeconomic and liquidity events in the European banking system, and explains interest rate spreads after controlling for different measures commonly used to characterize money markets.

*JEL classification:* E42, E58, G21, G28.

*Keywords:* Money markets, collateralized lending, unsecured lending, equilibrium model, structural model, systemic risk, liquidity.

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