

Volume 28, Issue 11**Research Announcement****Financial architecture: the role of higher order beliefs**

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Abstract

This paper generalizes a costly state verification model à la Townsend (1979) along two dimensions: 1) diversity of opinion and 2) endogenous formation of a financial intermediary, modeled as a multi-lender coalition. Main results are 1) lenders forming the coalition are neither too optimistic nor too pessimistic, 2) under some parameter conditions, the stronger the disagreement between any lender, the smaller the coalition size and 3) it is desirable to exclude some lenders from the project financing. It is also shown that the standard CSV model (Williamson (1986)) is a limit case of this generalized CSV model.

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