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changing regulatory constraints affect the deposit rates offered for illiquid loans.

Portfolio Selection with Small Transaction

An investor with constant relative risk aversion and an infinite planning horizon trades a risky and a

safe asset with constant investment opportunities, in the presence of small transaction costs and a

alternatives with different lending rates and margin requirements. Moreover, we discuss how

binding exogenous portfolio constraint. We explicitly derive the optimal trading policy, its welfare, and implied trading volume. As an application, we study the problem of selecting a prime broker among

Costs and Binding Portfolio Constraints

Submission history

From: Johannes Muhle-Karbe [view email] [v1] Mon, 21 May 2012 13:03:32 GMT (431kb,D)

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