Review of the paper

How We Might Model a Credit Squeeze, and Draw Some Policy Implications for Responding to It

The recent financial crisis has led many governments to rescue their financial sectors through a combination of capital injections, toxic asset purchases and bank solvency guarantees. However, as the financial crisis developed into a full-blown global recession, governments are further providing the necessary fiscal stimulus to their economies. Around the world, the media have often written about the problems related to the credit squeeze and large government. However, as the clear causes of the current crises are unknown, there are no obvious remedies for the present unfavourable conditions.

Thus, the paper *How We Might Model a Credit Squeeze, and Draw Some Policy Implications for Responding to It* is a significant contribution to the analysis how to solve economic crisis and the role of credit squeeze in it. It is logically organised, nicely written and interesting for an average reader who should not be expert in the field. The paper begins with the Chapter 1 *Introduction,* followed by *Background* where are explained the problems of corporate borrowers (page 3). The following paragraph is titled *Banks* dedicated to the three types of outcome regarding the banks behaving. Chapter 4 examines the short run model of the credit squeeze, while Chapter 5 is titled *Modelling the Longer Run* where is underlined the role of the financial imperfections that generate inefficiency (page 13). Conclusion remarks and recommendation on appropriate policy measures are given in Section 6.

There are some technical small errors like in foot-note 11 page 15 where in the second line there is a space before the coma and a space before dot in the third line. On page 13 *e* should be mowed to the left in *the absenc* ***e****of any adjustment costs*. On page 18 there are two dots in the line beginning with *to supplement their deposit base***..**

In sum: an excellent paper with a strong argument, based on up-to-date selection of international literature. The text offers a clear picture of the complicated issues related to the credit squeeze as well as of their positive and negative sides. **Briefly, the contribution of the paper potentially is significant and the analysis is correct of the high quality**.