Response to Referee Report 1

The referee has read the paper carefully, and I have found his or her comments extremely useful while working on a new draft of the paper with substantial changes. In almost every case I have adopted the referee’s recommendations. The following responses should make clear how I have implemented the recommendations.

Comment 1: The claim that this ideal world can be a starting point for more realistic modes of financial intermediation is ambitious and deserves some justification.

I have added further discussion to the paper of the differences between my approach and the existing literature in the opening paragraphs of section 3 in order to motivate the advantages of the model. In the conclusion I explain the reasoning behind my view that this model can be a useful foundation for studying financial intermediaries.

Comment 2: There should be some discussion of how robust the author expects her model to be.

At the recommendation of the referee, I explain why I believe the model to be robust to changes in the conclusion.

Minor comments: For the most part these have been incorporated into the revised version of the paper, with the following exception:

Page 4, third paragraph should be \((1/nk)(1/2)\)^

In each period the uncertainty is realized before consumption takes place, thus the history at date 0 is not null, but a singleton. For this reason, I believe that the formula in the text is correct.