

Referee report – paper by Peter Sinclair entitled “How we might model a credit squeeze and draw some policy implications for responding to it”.

This paper is suitable for publication. It has been written by a leading economist with an international reputation. The modelling approach is interesting and does provide some insights which throw light upon the current financial crisis.

Given the importance that the author places upon ‘trust’ as a contributing factor it is a pity that more is not made of this. How can trust be modelled? What is trust? Also, is an equilibrium approach the best analytical strategy to adopt? Are we in a credit constrained equilibrium? How far away is such an equilibrium from the natural rate? What does the paper have to say about the institutional features of the regulatory regime that will restore trust? Clearly, the topic of the financial crisis is a big one and no single paper can answer all aspects. Nevertheless this paper does make a valuable contribution to the debate.