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**Liquidity effects on asset prices, financial stability and economic  
resilience**

**Abstract**

This paper analyzes the different channels of shock transmission in an economy affected by financial frictions. We distinguish between the liquidity and default effects on asset prices. Furthermore, we develop a framework in which we can assess financial stability policy under financial frictions. We introduce a simplified model of trade and financial intermediation that captures the effects of shocks on financial and real variables of the economy. Our results suggest that financial stability and economic resilience to adverse shocks should take into account default in the credit market as well as the liquidity of goods traded in the commodity market.