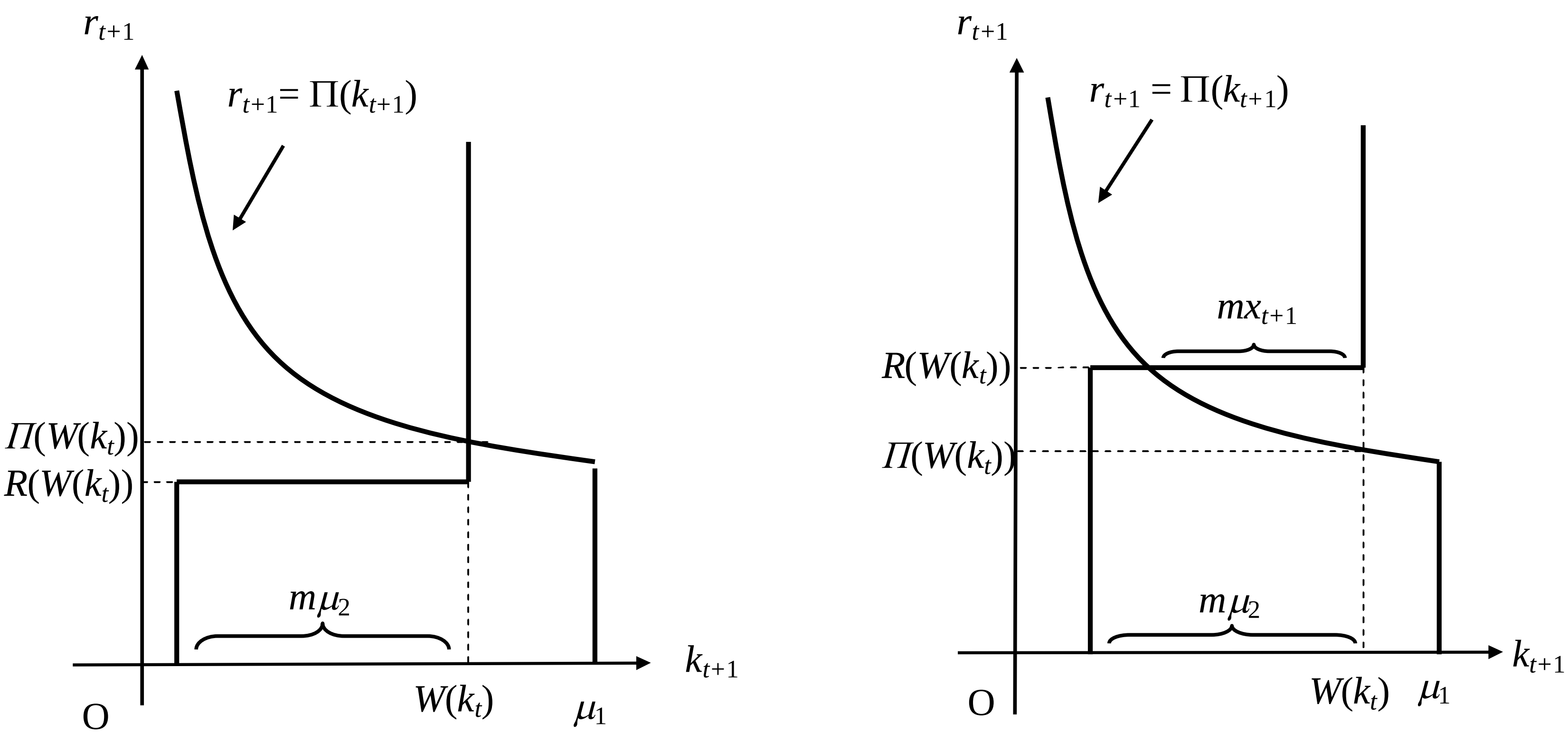
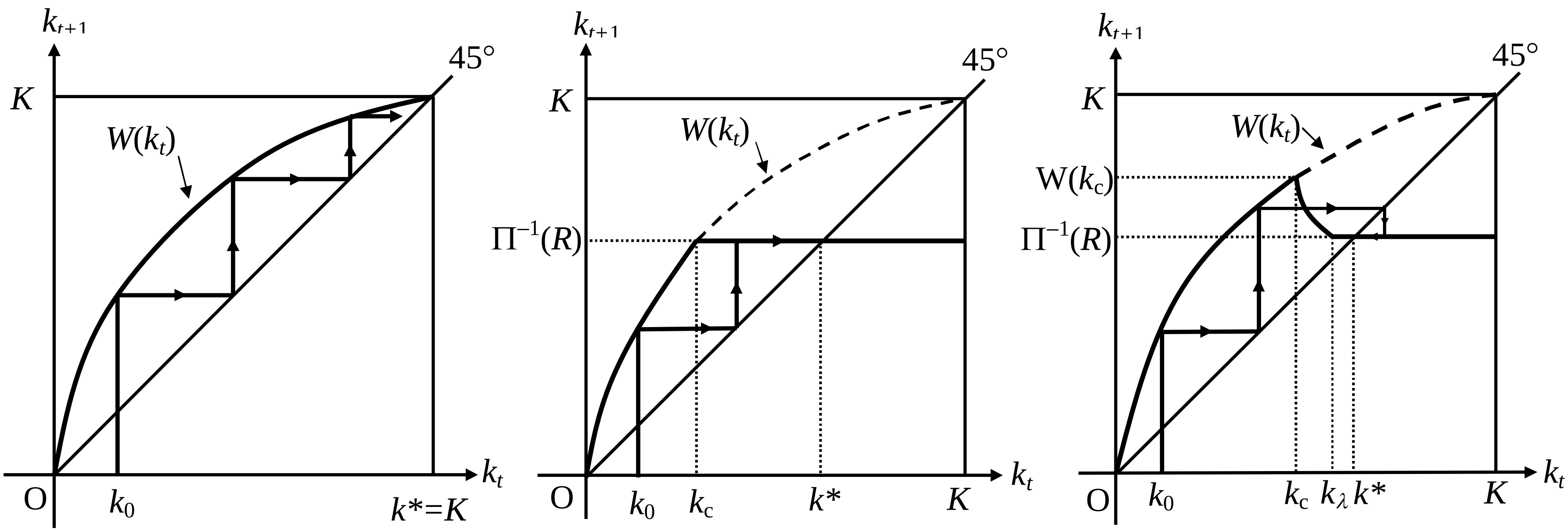
Figure 1: The Credit Market Equilibrium



a: ($k_t < k_c$)
All the credits go to the Good.

b: ($k_c < k_t < k_{cc}$)
Some credits go to the Bad

Figure 2: Phase Diagrams



a: ($k_c \geq K$)

Monotone Convergence

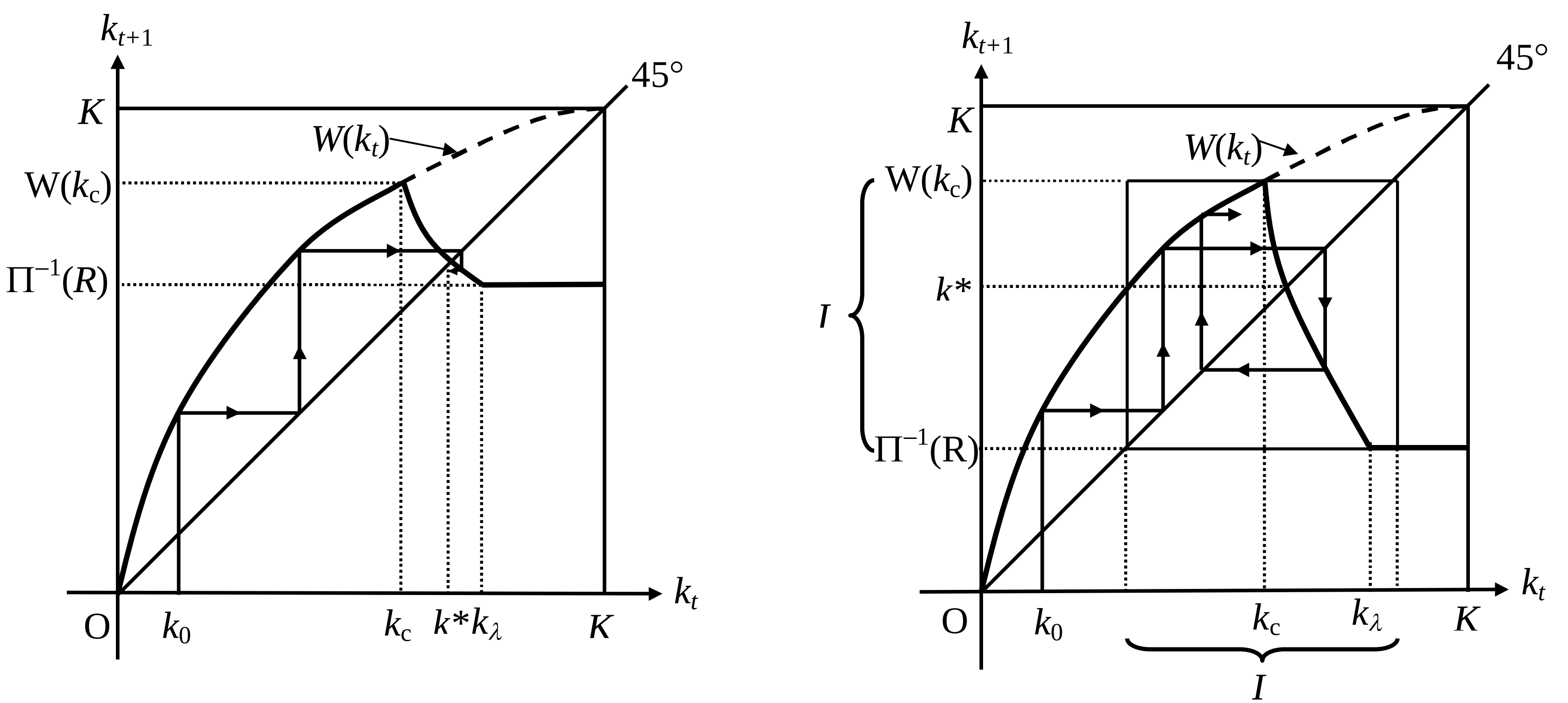
b: ($k_\lambda \leq k_c < K$)

Monotone Convergence

c: ($k_c < k_\lambda \leq k^* = \Pi^{-1}(R)$)

Over-shooting

Figure 2: Phase Diagrams (Continue…)



d: ($k_c < k^* < k_\lambda$) with the stable steady state

(Locally) Oscillatory Convergence

e: ($k_c < k^* < k_\lambda$) with the unstable steady state

Endogenous Fluctuations

Figure 3: Parameter Configuration ($K < m < K\phi(1/K)$)

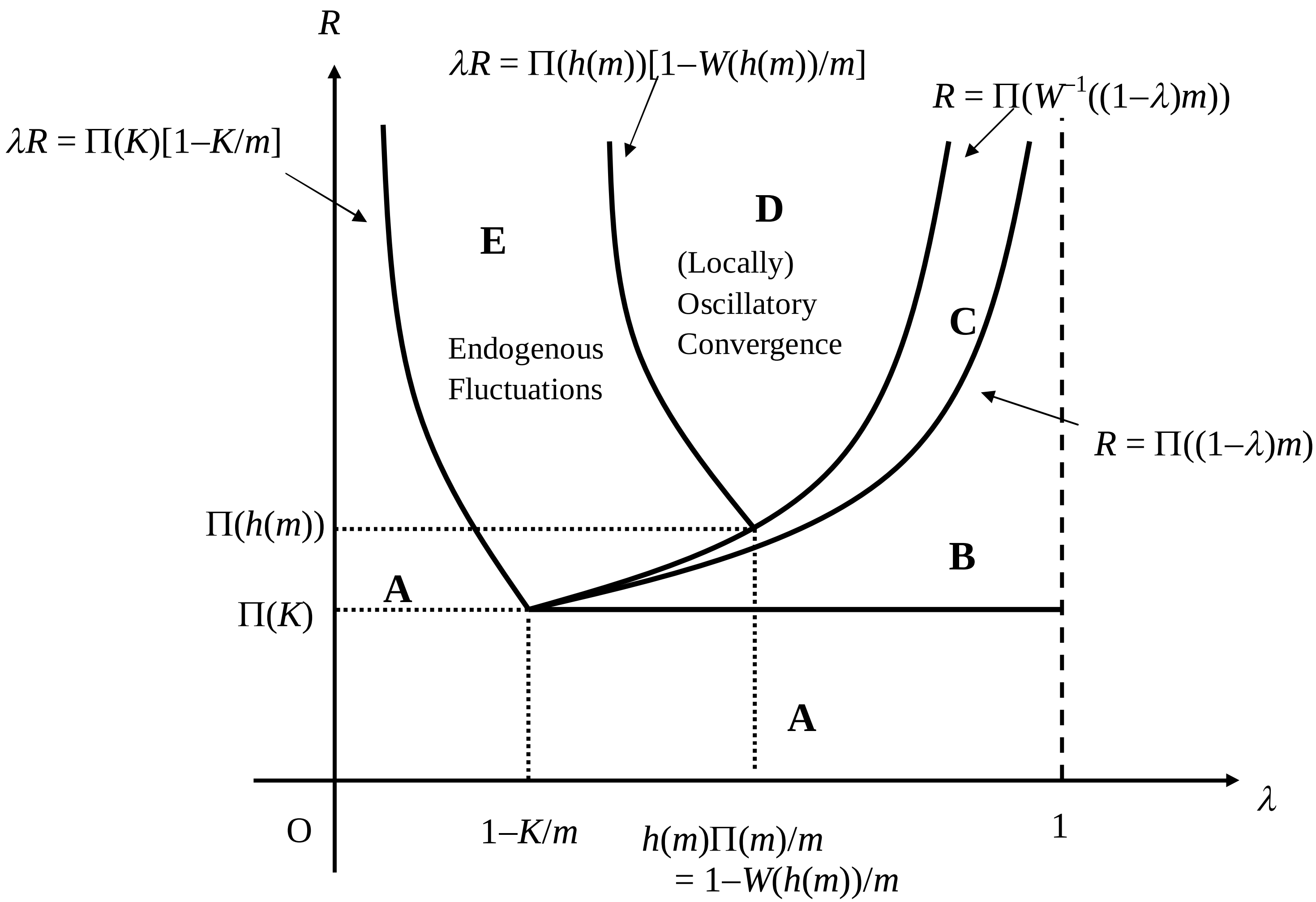
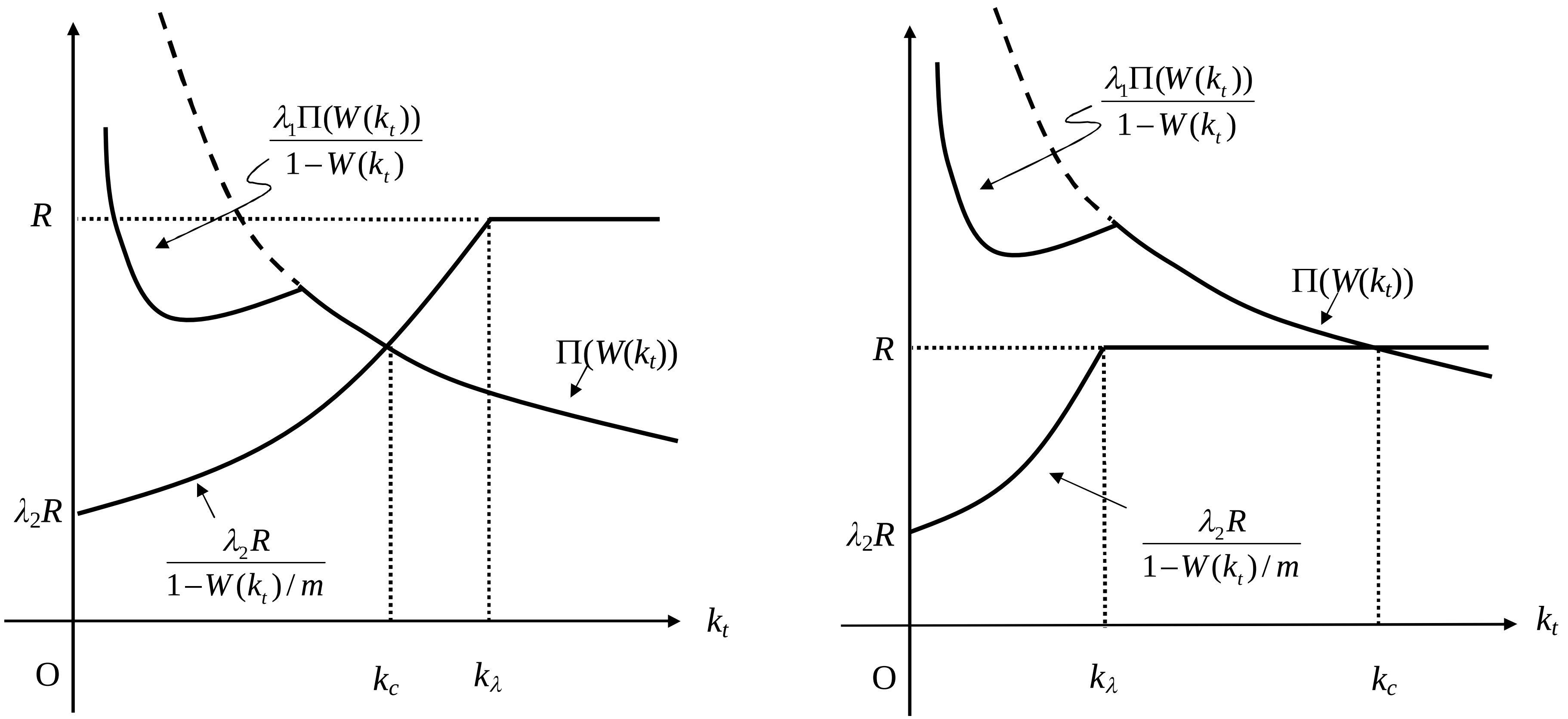


Figure 4: Pledgeable returns by the Good and the Bad



a: ($k_\lambda > k_c$)

b: ($k_\lambda < k_c$)

Figure 5: Pledgeable returns by the Good and the Bad in the presence of the Ugly

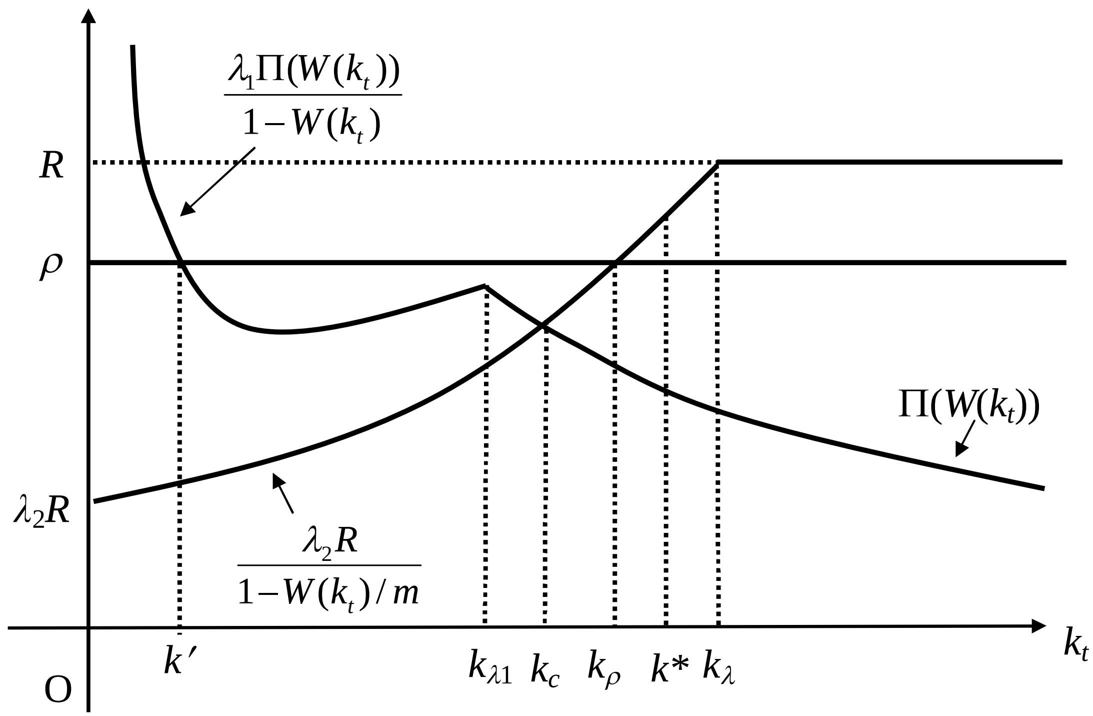


Figure 6: The Good, The Bad, and The Ugly: Intermittency and Asymmetric Fluctuations