

Comparing these costs shows that, if $C_{bp} < C_p + C_b$ then, in the non-electoral period, it will certainly be more convenient to appoint a single agent. In the election period, it will all depend on the difference

$$C_{bp} - C_p + R - [C_b + (R/2)] = C_{bp} - (C_b + C_p) + (R/2)$$

If this difference is zero, it will not matter at all whether one or two agents are appointed. If the value is >0 , then one agent costs more than two agents and therefore it is better to appoint two agents; if on the other hand $C_{bp} - (C_b + C_p) + (R/2) < 0$, it will be more suitable to appoint a single agent. The cost difference will rise in proportion to R , the reputation cost, assessed by the central governor.

Firstly, it would be interesting to identify proxies to measure the governor's reputation effect.

Secondly, an empirical analysis could be made of whether or not these indicators of reputation are connected to the outcome of monetary and supervision policy. It should be remembered that the problem of measurability also exists for the second function mentioned.

10. Conclusions

This paper analyses the advantage to be gained in entrusting the jobs of "banking supervision" and "monetary policy" to two agents, Banking Authority (BA) and Central Bank (CB), or to a single agent, CB. In examining the policy maker's choice between single or multiple authorities, the role of the political cycles was appraised. For this purpose, two periods were examined: electoral and non-electoral. The model is that of a principal with two agents, where the principal is the political group in power, while the agents are, as we have said, BA and CB.

The reached conclusion is that the political chooses the institutional design of regulatory authorities without being influenced by the electoral cycle. What is interesting is the importance of the costs of "capture", related to the different institutional hypotheses. The political will have convenience to choose a centralized setup, in the pre-electoral period, when the value that the head of the CB (governor) gives to his reputation is rather low. This will occur with higher probability when the

central banker is little conservative. A governor with a lower inflation aversion will leave "to involve" himself from the political in a more expansionary monetary policy. In this case, monetary policy and supervision policy, go to the same direction. The probability, in fact, to have a stable banking system is higher when monetary policy is more "easy-going". Therefore the presence of an a little conservative central banker means choice of a design of monetary and supervision policy both centralized in the hands of the central bank.

Otherwise if the governor of the central bank is very adverse to the inflation, hardly the government will "capture" the governor. In such case, it will be advantageous for the political to assign the responsibility of supervision policy to an authority distinguished from the central bank.