Corrections to Chapter 16, page 319

The text is self-contradictory from line 11 (from below) and onwards. Here is an explanation:

It was shown in the upper half of the page that if the other bank has chosen to be illiquid, then my expected payoff when I am illiquid is $E\pi_1$, which is better than what I get from being liquid, namely $E\pi_2$, except when $L$ is very low, smaller than $L_1$. If the other bank is liquid, then it is too expensive for me to be illiquid, unless when $L$ is sufficiently high, greater than $L_2$.

Thus we get an interval, so that for $L \leq L_1$, it is always best to be liquid, for $L$ between $L_1$ and $L_2$ it is best to do what the other bank does, and for $L \geq L_2$ it is best to be illiquid.

The main point of the whole story comes when we compare with the situation without an LLR, where banks are liquid for $L$ below some $L^*$ and illiquid above this threshold. It can be checked that $L^* > L_2$, so that banks more often choose to be illiquid when there is an LLR, even one with a restrictive policy, and this can be considered as a cost or a side effect of the presence of an LLR.