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Can a Lender of Last Resort Stabilize Financial Markets? Wiley Essay from the year 2011 in the subject Economics - Finance, grade: Distinction, University of Warwick (School of Law), course: International Banking Regulation, language: English, abstract: The recent financial crisis of 2007-2009 (the crisis) has been dramatised as the worst crisis since the great de- pression in the 1930s. Prompt regulatory response was required in order to contain the spread of fear and stop the mistrust with the ultimate goal to restore the confidence into the financial institutions and markets as well as prevent the collapse of the real economy. Financial crises containment can be defined as the enhancement of "... soundness and stability of the banking ..." which is essential to "...ensure legal certainty and to restore confidence in financial markets" Regulators have a whole set of tools to respond to crises, using an existing regime and or implementing a special resolution regime. Latter has a broad span reaching from capital injections to expropriation. Undoubtedly, the measures raise legal questions regarding their raison d'être and liability of those exercising the measures. Moreover, the measures have individual merits and demerits varying in respect of their costs and perspective of the market participants. The purpose of this essay is to analyse these responses. Therefore, different measures will be identified and evaluated in light of the Economic and Financial Affairs Council's common principles for action 5 and the Commission Communication of State Aid 6 which have been determined as representative guidelines for policy makers in drafting a response regime. It will be concluded that there is no clear cut answer to which are the most successful measures; nevertheless, there is empirical evidence of which are the most favoured responses by regulators. The measures will be in response to an acute crisis, ie the prevention and resolution of a crisis will not be treated in this essay. In addition, the responses will be limited to the European Union. The next chapter is dived in 5 parts exploring mechanisms to contain financial crises. It represents a sequence that has been observed in the recent crisis in Europe. Chapter 3 gives an outlook. The last chapter concludes.

The Lender of Last Resort Princeton University Press

If you've got money in the bank, chances are you’ve never seriously worried about not being able to withdraw it. But there was a time in the United States, an era that ended just over a hundred years ago, when bank customers had to pay close attention to the solvency of the banking system, knowing they might have to rush to retrieve their savings before the bank collapsed. During the National Banking Era (1863–1913), before the establishment of the Federal Reserve, widespread banking panics were indeed rather common. Yet these pre-Fed banking panics, as Gary B. Gorton and Ellis W. Tallman show, bear striking similarities to our recent financial crisis. Fighting Financial Crises thus turns to the past to better understand our uncertain present, investigating how panics during the National Banking Era played out and how they were eventually quelled and prevented. The authors then consider the Fed’s and the SEC’s reactions to the recent crisis, building an informative new perspective on how the modern economy works.

Last Resort Springer Science & Business Media

Sovereign debt crises are a little like the weather: One can get ready to endure them and maybe take some steps to lessen their impact, but so far it hasn't been possible to prevent them. Like the weather, they just keep happening. That's the overriding thesis of this book tracing the major debt crises of the past century, starting with the Great Depression and running through the recent Great Recession. Written by a former World Bank expert on debt crises, this book discusses best practices for how such crises can be resolved. As the painful experience of the past decade reminded everyone, frequent debt crises and defaults do great damage to economies and cause vast personal hardship. But resolving them has proven difficult—both economically and politically—and has taken time, almost always requiring a lender of last resort such as a country's central bank or the International Monetary Fund. Too often, efforts to end debt crises have been little more than a palliative, and the debt overhang from one crisis contributes to the next, as illustrated by the ongoing saga in Greece. Both private and sovereign debts have increased substantially since the 2008 crisis, with inadequate deleveraging. This debt overhang leaves countries vulnerable and with limited maneuverability to address the next crisis. This book does not pretend to describe how debt crises can be prevented. But it does draw useful lessons from recent crises that can help economists, bankers, policymakers, and others resolve the inevitable future crises with the least possible damage.

Manias, Panics and Crashes Springer
Moral Hazard is a core concept in economics. In a nutshell, moral hazard reflects the reduced incentive to protect against risk where an entity is (or believes it will be) protected from its consequences, whether through an insurance arrangement or an implicit or explicit guarantee system. It is

fundamentally driven by information asymmetry, arises in all sectors of the economy, including banking, medical insurance, financial insurance, and governmental support, undermines the stability of our economic systems and has burdened taxpayers in all developed countries, resulting in significant costs to the community. Despite the seriousness and pervasiveness of moral hazard, policymakers and scholars have failed to address this issue. This book fills this gap. It covers 200 years of moral hazard: from its origins in the 19th century to the bailouts announced in the aftermath of the COVID-19 outbreak. The book is divided into three parts. Part I deals with the ethics and other fundamental issues connected to moral hazard. Part II provides historical and empirical evidence on moral hazard in international finance. It examines in turn the role of the export credit industry, the international lender of last resort, and the IMF. Finally, Part III examines specific sectors such as automobile, banking, and the US industry at large. This is the first book to provide an interdisciplinary analysis of moral hazard and explain why addressing this issue has become crucial today. As such, it will attract interest from scholars across different fields, including economists, political scientists and lawyers.

The Financial Crisis Inquiry Report, Authorized Edition OUP Oxford

The stunning collapse of the thrift industry, the major stock slump of 1987, rising corporate debt, wild fluctuations of currency exchange rates, and a rash of defaults on developing country debts have revived fading memories of the Great Depression and fueled fears of an impending economic crisis. Under what conditions are financial markets vulnerable to disruption and what economic consequences ensue when these markets break down? In this accessible and thought-provoking volume, Benjamin M. Friedman investigates the origins of financial crisis in domestic capital markets, Paul Krugman examines the international origins and transmission of financial and economic crises, and Lawrence H. Summers explores the transition from financial crisis to economic collapse. In the introductory essay, Martin Feldstein reviews the major financial problems of the 1980s and discusses lessons to be learned from this experience. The book also contains provocative observations by senior academics and others who have played leading roles in business and government.

Fighting Financial Crises Routledge The collapse of Lehman Brothers, the oldest and fourth-largest US investment bank, in September 2008 precipitated the global financial crisis. This deepened the contraction in economic activity that had already started in December 2007 and has become known as the Great Recession. Following a sluggish and uneven period of recovery, levels of private debt have recently been on the rise again making another financial crisis almost inevitable. This book answers the key question: can anything be done to prevent a new financial crisis or minimize its impact? The book opens with an analysis of the main elements responsible for the 2007/2009 financial crisis and assesses the extent to which they are still present in today´s financial system. The responses to the financial crises - particularly the Dodd-Frank Act, the establishment of the Financial Stability Board, and attempts to regulate shadow banking – are evaluated for their effectiveness. It is found that there is a high risk of a new bubble developing, there remains a lack of transparency in the financial industry, and risk-taking continues to be incentivised among bankers and investors. Proposals are put forward to ameliorate the risks, arguing for the need for an international lender of last resort, recalling Keynes' idea for an International Clearing Union. This book will be of significant interest to scholars and students of financial crises, financial stability, and alternative approaches to finance and economics.

Connectedness and Contagion Brookings Institution Press

An argument that contagion is the most significant risk facing the financial system and that Dodd¬Frank has reduced the government's ability to respond effectively. The Dodd–Frank Act of 2010 was intended to reform financial policies in order to prevent another massive crisis such as the financial meltdown of 2008. Dodd–Frank is largely premised on the diagnosis that connectedness was the major problem in that crisis—that is, that financial institutions were overexposed to one another, resulting in a possible chain reaction of failures. In this book, Hal Scott argues that it is not connectedness but contagion that is the most significant element of systemic risk facing the financial system. Contagion is an indiscriminate run by short-term creditors of financial institutions that can render otherwise solvent institutions insolvent. It poses a serious risk because, as Scott explains, our financial system still depends on approximately $7.4 to $8.2 trillion of runnable and uninsured short-term liabilities, 60 percent of which are held by nonbanks. Scott argues that efforts by the Federal Reserve, the FDIC, and the Treasury to stop the contagion that exploded after the bankruptcy of Lehman Brothers lessened the economic damage. And yet Congress, spurred by the public's aversion to bailouts, has dramatically weakened the power of the government to respond to contagion, including limitations on the Fed's powers as a lender of last resort. Offering uniquely detailed forensic analyses of the Lehman Brothers and AIG failures, and suggesting alternative regulatory approaches, Scott makes the case that we need to restore and strengthen our weapons for fighting contagion.

British Financial Crises since 1825

Edward Elgar Publishing

Examines the causes of the financial crisis that began in 2008 and reveals the weaknesses found in financial regulation, excessive borrowing, and breaches in accountability.

An Analysis of Charles P. Kindleberger's Manias, Panics, and

Crashes Cambridge University Press
We use the founding of the Federal Reserve as a historical experiment to provide some insight into whether a lender of last resort can stabilize financial markets. Following the Panic of 1907, Congress passed two measures that established a lender of last resort in the United States: (1) the Aldrich-Vreeland Act of 1908 which authorized certain banks to issue emergency currency during a financial crisis and (2) the Federal Reserve Act of 1913 which established a central bank. We employ a new identification strategy to isolate the effects of the introduction of a lender of last resort from other macroeconomic shocks. We compare the standard deviation of stock returns and short-term interest rates over time across the months of September and October, the two months of the year when financial markets were most vulnerable to a crash because of financial stringency from the harvest season, with the rest of the year during the period 1870-1925. Stock volatility in the post-1907 period (June 1908-1925) was more than 40 percent lower in the months of September and October compared to the period (1870-May 1908). We also find that the volatility of the call loan rate declined nearly 70 percent in September and October following the monetary regime change.
Stewards of the Market International Monetary Fund
How does America manage crisis on behalf of international finance in the absence of a global state? Doyran

explores the relationship between state power and global finance and in particular examines the various attempts by the US state at financial crisis management. The case studies highlight the dramatic consequences of the rise of financial capitalism in the US economy, and also explore regulatory sources of market failures, systemic risk and moral hazard. This book focuses on this primary issue facing scholars of American power in various social science disciplines, including political science, finance and international relations, professional financial analysts and Government officials. This book is for the critical reader who is interested in financial policy and wants to learn more about the causes and consequences of the rise of financial markets.

In Good Times Prepare for Crisis Centre for Economic Policy Research
The global financial crisis (GFC) has renewed interest in emergency liquidity support (sometimes referred to as "Lender of Last Resort") provided by central banks to financial institutions and challenged the traditional way of conducting these operations. Despite a vast literature on the topic, central bank approaches and practices vary considerably. In this paper we focus on, for the most part, the provision of idiosyncratic support, approaching it from an operational perspective; highlighting different approaches adopted by central banks; and also identifying some of the issues that arose during the GFC.
Moral Hazard Springer

This book will be of particular relevance for readers interested in a thorough analysis of international capital flows, their determinants and their macroeconomic implications. It also provides information about the origines of international financial crisis and assess proposals to overcome and avoid financial crisis in the future. The book is an outcome of a conference held at the Kiel Institute of World Economics. The papers cover the track record of financial integration, the changing structure of financial markets and the implications for macroeconomics and growth. Particular emphasis is placed on the various financial crises of the 1990s and on proposals for a reform of the international financial system.

Financial Crises and the World Banking System University of Chicago Press

Perhaps the most peculiar feature of a financial bubble – one that Charles Kindleberger's classic work Manias, Panics and Crashes draws particular attention to – is the inability of those trapped inside it to grasp the seriousness of their predicament. They know in principle that bubbles exist, and they know that the financial crashes that result from them are capable of destroying individuals' wealth and entire economies. Yet whenever and wherever a bubble begins to form, we're told that this time things are different, that there are sound reasons to continue to invest and to presume that prices will continue to rise steadily forever. Kindleberger's achievement is to use the critical thinking skill of evaluation to examine this strange mindset and the arguments advanced in support of it. He harshly judges the acceptability of the reasons used to create such arguments, and highlights the issues of relevance and adequacy that give us every reason to doubt them. Kindleberger also uses his powers of reasoning to effect an unusual achievement – writing a work soundly rooted in economics that nonetheless engages and convinces a non-specialist audience of the correctness of his arguments.

Manias, Panics, and Crashes DIANE Publishing

Conventional wisdom says that the International Monetary Fund (IMF) functions as the de facto international lender of last resort (ILLR) for the global financial system. However, that premise is incomplete. Brother, Can You Spare a Billion? explores how the U.S. has for decades regularly complemented the Fund's ILLR role by selectively providing billions of dollars in emergency loans to foreign economies in crisis. Why would the U.S. ever put national financial resources at risk to "bail out" foreign countries? McDowell argues that the U.S. has been compelled to provide such rescues unilaterally when it believes the IMF's multilateral response is too slow or too small to protect vital U.S. economic interests. Through a combination of historical case studies and statistical analysis, McDowell uncovers the defensive motives behind U.S. decisions to provide global liquidity from the 1960s through the 2008 global financial crisis. Moving beyond conventional wisdom, this book paints a complete picture of how international financial crises have been managed and highlights the unique role the U.S. has played in stabilizing the world economy in troubled times.

The Lender of Last Resort Function after the Global Financial Crisis CRC Press

In the ongoing financial crisis, policy makers have for the most part appeared to be reactive, formulating emergency solutions as events unfold. However, in contrast to their performance during the Great Depression, central banks around the world, led by the Federal Reserve, acted decisively following the collapse of Lehman Brothers and provided huge injections of liquidity into the financial markets, thereby preventing a far worse outcome. International Liquidity and the Financial Crisis compares the 2008 crisis with the disaster of 1931 and explores the similarities and differences. It considers the lasting effects of the crisis on international liquidity, the possibilities for an international lender of last resort, and the enlargement of the International Monetary Fund after the crisis. It shows that there is no clear demarcation between monetary and macro-prudential policies, and discusses how central banks need to adapt to a new environment in which global liquidity is much scarcer.

Financial Crises, Contagion, and the Lender of Last Resort : A Reader

Oxford University Press, USA

This book provides a history of British financial crises since the Napoleonic wars. Interest in crises lapsed during the generally benign financial conditions which followed the Second Word War, but the study of banking markets and financial crises has returned to centre stage following the credit crunch of 2007-8 and the subsequent Eurozone crisis. The first two chapters provide an overview of British financial crises from the bank failures of 1825 to the credit crunch of 2007-8. The causes and consequences of individual crises are explained and recurrent features are identified. Subsequent chapters provide more detailed accounts of the railway boom-and-bust and the subsequent financial crisis of 1847, the crisis following the collapse of Overend Gurney in 1866, the dislocation of London's money market at the outset of the Great War in 1914 and the crisis in 1931 when sterling left the gold standard. Other chapters consider the role of regulation, banks' capital structures, and the separation of different types of banking activity. The book examines the role of the Bank of England as lender of last resort and the successes and failures of crisis management. The scope for reducing the risk of future systemic crises is assessed. The book will be of interest to students, market practitioners, policymakers and general readers interested in the debate over banking reform.

What the Euro Crisis Means for Taxpayers and the U.S. Economy

International Monetary Fund

During the COVID-19 pandemic and global financial crisis, governments swiftly served as financiers of last resort through large financial support measures (FSMs) such as loan and guarantee programs and equity injections in firms. This Staff Discussion Note argues that such FSMs prevented bankruptcies and attenuated the recession by increasing firms' liquidity, reducing risk premiums, and boosting confidence. But FSMs also carry large and long-lasting fiscal costs and risks. The note presents recommendations for managing the legacies of the COVID-19 programs and preparing for future crises. Ideally, FSMs should be assessed and included in budget plans, though a balance needs to be struck between speed and scrutiny.

Manias, Panics and Crashes Springer

The capacity of national central banks to 'step in' and bail out an economy is one which has proved to be vitally important over the years. This collection from Wood and Capie brings together important literature for the first time in book form.

Brother, Can You Spare a Billion? MIT Press

Before 2007, economists thought that financial crises would never happen again in the United States, that such upheavals were a thing of the past. Gary B. Gorton, a prominent expert on financial crises, argues that economists fundamentally misunderstand what they are, why they occur, and why there were none in the U.S. from 1934 to 2007. Misunderstanding Financial Crises offers a back-to-basics overview of financial crises, and shows that they are not rare, idiosyncratic events caused by a perfect storm of unconnected factors. Instead, Gorton shows how financial crises are, indeed, inherent to our financial system. Economists, Gorton writes, looked from a certain point of view and missed everything that was important: the evolution of capital markets and the banking system, the existence of new financial instruments, and the size of certain money markets like the sale and repurchase market. Comparing the so-called "Quiet Period" of 1934 to 2007, when there were no systemic crises, to the "Panic of 2007-2008," Gorton ties together key issues like bank debt and liquidity, credit booms and manias, moral hazard, and too-big-too-fail--all to illustrate the true causes of financial collapse. He argues that the successful regulation that prevented crises since 1934 did not adequately keep pace with innovation in the financial sector, due in part to the misunderstandings of economists, who assured regulators that all was well. Gorton also looks forward to offer both a better way for economists to think about markets and a description of the regulation necessary to address the future threat of financial disaster.

Federal Home Loan Bank System

Penguin

The 2008 financial crisis poses three fundamental questions for economists and policy makers; understanding the origins of the crisis, understanding the consequences of this crisis for the world economy, and finally understanding why the 2008 financial crisis is not as serious as the 1929 crisis. The prevailing view is that the 2008 financial crisis was solely the result of inadequate financial regulation together with a very loose monetary policy conducted by central banks, especially the Fed. It is believed that this crisis is a temporary detour in the normal course of the events, so that in the near future capitalist economies will resume the high growth path observed before the crisis. In terms of the third question, there is a widespread view that the fundamental reason that explains the avoidance of the harmful experiences of 1929 was the fiscal and monetary policy expansions in developed countries. No important role is assigned to developing countries in terms of the effects of the financial crisis. This book challenges the prevailing orthodoxy surrounding the origins and the consequences of the 2008 financial crisis. The book demonstrates that measures in addition to a profound change in the financial regulation are required if a new financial crisis is to be avoided in the future, measures include: a change in the conduct of economic policy; a reform of the national and international monetary systems; and a radical change in the pattern of income distribution. This book is essential reading for all interested in macroeconomics, monetary policy, development economics and the global impact of the financial crisis.

- The Boy, The Mole, The Fox And The Horse By Charlie Mackesy
- Flash Cards: Sight Words
- The Summer Of Broken Rules
- Rich Dad Poor Dad: What The Rich Teach Their Kids About Money That The Poor And Middle Class Do Not!
- A Court Of Wings And Ruin (a Court Of Thorns And Roses, 3) By Sarah J. Maas
- The Housemaid's Secret: A Totally Gripping Psychological Thriller With A Shocking Twist By Freida Mcfadden
- Fast Like A Girl: A Woman's Guide To Using The Healing Power Of Fasting To Burn Fat, Boost Energy, And Balance Hormones By Dr. Mindy Pelz
- Things We Hide From The Light (knockemout Series, 2) By Lucy Score
- Goodnight Moon By Margaret Wise Brown