

Contents

| | |
|---|------|
| <i>List of figures</i> | vi |
| <i>List of tables</i> | vii |
| <i>List of acronyms</i> | viii |
| <i>Acknowledgements</i> | xi |
| | |
| 1. Introduction | 1 |
| 2. The background to the 2007 financial crisis | 9 |
| 3. Lessons from the crisis for financial regulation: what we need and what we do not need | 30 |
| 4. Central Banks' function to maintain financial stability: an uncompleted task | 34 |
| 5. A less hazardous way to protect depositors – FT article | 42 |
| 6. The regulatory response to the financial crisis | 45 |
| 7. Liquidity and money market operations: a proposal | 59 |
| 8. Liquidity risk management | 84 |
| 9. Now is not the time to agonise over moral hazard – FT article | 93 |
| 10. A proposal for how to avoid the next crash – FT article with Avinash Persaud | 95 |
| 11. A party pooper's guide to financial stability – FT article with Avinash Persaud | 98 |
| 12. The boundary problem in (financial) regulation | 101 |
| 13. How, if at all, should credit rating agencies (CRAs) be regulated? | 113 |
| 14. Conclusions | 141 |
| | |
| <i>Index</i> | 145 |

Figures

| | | |
|------|---|-----|
| 2.1 | Time path of interest rates in the USA, the Eurozone and the UK | 11 |
| 2.2 | Rates of monetary growth for the USA, the Eurozone and the UK (2001 to present) | 12 |
| 2.3 | (a) US yields on corporate and Treasury bonds | 14 |
| | (b) Stock market volatility | 14 |
| | (c) Europe corporate bond market spreads | 15 |
| | (d) United States asset-backed securities spreads | 15 |
| 2.4 | Time path of housing prices in the USA | 18 |
| 2.5 | Changing liability structure of the British bank Northern Rock | 20 |
| 2.6 | The decline in the outstanding US dollar-denominated asset-backed securities | 24 |
| 2.7 | Treasury Bills and short-dated government debt | 26 |
| 7.1 | Interest rates: UK | 64 |
| 7.2 | Interest rates: Eurozone | 64 |
| 7.3 | Interest rates: USA | 65 |
| 7.4 | Liquidity premium: UK | 66 |
| 7.5 | Liquidity premium: USA | 67 |
| 7.6 | The changing composition of the UK banking system's assets | 68 |
| 7.7 | The Preferential Access Scheme for liquidity | 72 |
| 13.1 | The uncertainty of the forecast of Probability of Default (PD) | 126 |

Tables

| | | |
|------|---|----|
| 7A.1 | Liquidity ratio: US (February 2008) annual IFS series | 76 |
| 7A.2 | Liquidity ratio: UK (February 2008) annual IFS series | 78 |
| 7A.3 | Liquidity ratio: Canada (February 2008) annual IFS series | 80 |
| 7A.4 | Liquidity ratio: Sweden (February 2008) annual IFS series | 82 |