## **Contents**

	List of Boxes	<i>page</i> ix xi xv xvii xix
	List of Figures	
	List of Tables	
	List of Countries	
	List of Abbreviations	
	Preface	xxv
Part I	Setting the Stage	1
1	Functions of the Financial System	3
	1.1 Functions of a financial system	5
	1.2 Bank-based versus market-based financial systems	16
	1.3 Recent changes	29
	1.4 Conclusions	33
2	Financial Crises	39
	2.1 Introduction	40
	2.2 Theory	45
	2.3 The financial crisis of 2007–2009	54
	2.4 The euro crisis	63
	2.5 Conclusions	75
3	European Financial Integration: Origins and History	79
	3.1 European integration: introduction	80
	3.2 European institutions and instruments	83
	3.3 Monetary integration	89
	3.4 Coordination of fiscal and economic policies	94
	3.5 Financial integration	98
	3.6 Conclusions	105

4	Monetary Policy of the European Central Bank	108
	4.1 The European Central Bank	109
	4.2 Monetary policy strategy	115
	4.3 Monetary policy instruments	119
	4.4 Unconventional monetary policy	127
	4.5 ECB communication policies	140
	4.6 Forward guidance	145
	4.7 Conclusions	149
Part II	 Financial Markets	153
		100
5	European Financial Markets	155
	5.1 Financial markets: functions and structure	156
	5.2 Money market	161
	5.3 Bond markets	166
	5.4 Equity markets	178
	5.5 Derivatives	183
	5.6 Foreign exchange market	188
	5.7 Conclusions	190
6	The Economics of Financial Integration	195
	6.1 Financial integration: definition and drivers	196
	6.2 Measuring financial integration	200
	6.3 Integration of European financial markets	203
	6.4 The consequences of financial integration	207
	6.5 Conclusions	213
7	Financial Infrastructures	216
	7.1 Payment systems and post-trading services	217
	7.2 Economic features of payment and securities market infrastructures	230
	7.3 Integration of financial market infrastructures	235
	7.4 Conclusions	243
8	Financial Innovation	248
	8.1 Financial innovation: causes and consequences	249
	8.2 Pros and cons of financial innovation	256
	8.3 Risks of financial innovation: two case studies	262
	8.4 Credit rating agencies	266
	8.5 Shadow banking	271
	8.6 Conclusions	276

Part III	Financial Institutions	279
9	The Role of Institutional Investors	281
	9.1 Different types of institutional investors	282
	9.2 The growth of institutional investors	295
	9.3 Portfolio theory and international diversification	301
	9.4 The home bias in European investment	305
	9.5 Conclusions	315
10	European Banks	319
	10.1 Theory of banking	320
	10.2 The use of risk-management models	328
	10.3 The European banking system	336
	10.4 The new Banking Union landscape	349
	10.5 Conclusions	354
11	European Insurers and Financial Conglomerates	358
	11.1 Theory of insurance	359
	11.2 The use of risk-management models	373
	11.3 The European insurance system	381
	11.4 Financial conglomerates	394
	11.5 Conclusions	398
Part IV	Policies for the Financial Sector	403
12	Financial Regulation and Supervision	405
	12.1 Rationale for government intervention	406
	12.2 Microprudential supervision	410
	12.3 Conduct-of-business supervision	421
	12.4 Supervisory structures	428
	12.5 Financial supervision in Europe	430
	12.6 Conclusions	443
13	Financial Stability	448
	13.1 Financial stability and macroprudential supervision	449
	13.2 Macroprudential policy	452
	13.3 Macroprudential indicators	456
	13.4 Macroprudential instruments	460
	13.5 Macroprudential architecture	466

## **Contents**

	13.6	Crisis management and resolution	469
	13.7	Conclusions	480
14	European Competition Policy		484
	14.1	What is competition policy?	485
	14.2	The economic rationale for competition policy	486
	14.3	Pillars of EU competition policy	491
	14.4	Assessment of dominant positions	501
	14.5	Institutional structure	507
	14.6	Conclusions	509
	71.		514
	Inde:	x	514