

Index

- Admati, Anat, 223
 adverse selection, 190
 agricultural prices, 1920s, 75
 Akerlof, George, 188
 Albania, 39
 Alesina and Ardagna, 249
 American International Group (AIG),
 154, 197
 anti-Keynesian counter revolution, 228
 Argentina, 38, 101, 102, 104, 105, 108
 ASEAN+3, 138
 Asian Bond Market Initiative (ABMI), 138
 Asian Crisis, 13, 32, 62, 117
 austerity policy, 133
 capital market liberalization, 131, 132
 contagion, 128–129
 current account deficits, 129
 current accounts, 139–140
 Indonesia, 131
 international reserves, 127
 Korea, 131
 link to Subprime Crisis, 141–142
 Malaysia, 131
 post-crisis integration, 137–139
 post-crisis reserves, 141
 real appreciation, 129–130
 recovery, 134–135
 Thailand, 124
 Asian Development Bank, 139
 Asian Infrastructure Investment Bank
 (AIIB), 138
 Asian Monetary Fund (AMF), 138
 asset bubble, 23–28
 criticism of concept, 25
 Dotcom, 27
 equities versus housing, 26
 psychological factors, 25
 risks, 24
 US home prices, 144
 asymmetric information, 7, 189, 190–192
 “bankruptcy for profit”, 191
 “phishing for phools”, 191–193
 adverse selection, 190
 moral hazard, 193
 mortgage originators, 191
 principal-agent problem, 192
 reputation mining, 192
 austerians, 249
 austerity, 299
 expansionary, 136, 179, 248
 critique, 249–250
 worsening problems in Eurozone, 251
 IMF’s re-evaluation, 251
 impact on solidarity in Eurozone, 181
 Bagehot, Walter, 83, 207
 Bagehot’s Rule, 83, 153–154
 balance of payments crisis. *See* sudden stop
 crisis
 bank failures, 1930s, 82
 Bank for International Settlements, 63
 Bank of England, 53, 153
 banking crises
 high income countries, 187
 banking crisis, 21
 Bretton Woods Period, 56
 current period, 61
 frequency, 50
 high income countries, 65
 Interwar Period, 51
 banking union, 262
 banks
 capital levels, 161, 213
 capital requirements, 221
 risk reduction, 222
 implicit subsidies, 220–221
 optimal level of capital, 222
 retail versus investment, 209
 sources of funding, 212
 Baring Crisis, 49, 273
 Basel III, 214, 298
 Bear Stearns, 19, 152, 153, 197

328 INDEX

- Bernanke, Ben, 69
 financial accelerator, 83, 208–209
 global savings glut, 141
 Japan's crisis, 233
- BNP Paribas, 19, 152
- Bolivia, 92, 101
- Bordo, Michael, 273
- Brady Plan, 114
- Brazil, 101, 103, 105, 108
- Bretton Woods, 10
 capital restrictions, 58, 60
 currency and banking crises, 59–60
 economic trends, 59
 end of, 59
 exchange rate system, 57–58
 goals, 56–57
 increase in international liquidity, 57
- Bretton Woods Conference, 56
- Buenos Aires Water Supply and Drainage Company, 49
- capital controls, 277
- capital flight, 32, 34
- capital flows
 Eurozone, 169
 first and second globalization, 50
 return to Latin America, 1990s, 108
 short term, 63
- capital market liberalization, 31–33
 benefits, 266–267
 Bretton Woods era, 268
 current period, 63
 effects on growth, 275–276
 IMF's assumptions, 269
 lack of consensus, 269–270
 links to crisis, 270–272, 273–274
 openness on current account, 267
 risks, 24
- capital requirements
 optimal level, 222
 risk reduction, 222
- CEPAL. *See* ECLA
- CFPB, 162, 192
- Chanda, Nayan, 46
- Chandler, Alfred, 44
- Chiang Mai Initiative, 138
- Chicago Board of Trade, 47
- Chile, 97, 105
- China, 119, 125, 139, 141
 reserves accumulation, 149
- Claessens, Stijn, 20, 273
- Clinton Administration, 249
- collateralized debt obligations (CDOs), 151
- Colombia, 105
- commercial paper, 199
 asset backed commercial paper (ABCP), 200
- confirmation bias, 231
- Consumer Financial Protection Bureau. *See* CFPB
- cost of credit intermediation, 86
- credit boom, 28–30
 Ireland and Spain, 2000s, 28–29
 Latin America, 1970s, 97
 loans to oil producers, 1970s, 97
 risks, 24
 United States, 2000s, 144–151
- crisis risk factors, 23, *See* individual risk factors
 Latin America, 98
 Subprime Crisis, 151–152
- crowding-in, 250
- currency crisis, 21
 Bretton Woods Period, 56
 current period, 61
 frequency, 50
 Interwar Period, 52
- debt
 advantages of internal, 285
 Asian and Latin American compared, 287
 asymmetry, borrowers and lenders, 293
 country variation in risks, 282
 default with low levels, 281
 demographic challenges, 290
 external, 22
 external versus internal, 22
 external vs. internal, 39
 failure of austerity, 292–293
 frequency of sovereign defaults, 284
 graduation from debt crisis, 288
 gross, 285
 inflation, role, 294
 internal, 22
 Japan, 39
 measurement, public debt, 284–285
 net, 285
 political issues, 290
 private sector problems, 283–284
 private vs. public, 38

- reducing, eliminating, 295
 - risk factor, 37–40
 - risks, 24
 - sustainability, 291
 - thresholds, 287
 - United Kingdom, 39
 - usefulness, 37, 282
 - debt crisis, 21, 22
 - Bretton Woods Period, 56
 - current period, 61
 - Interwar Period, 52
 - sovereign, 282
 - frequency, 284
 - debt deflation, 27
 - debt intolerance, 286
 - debt overhang, 283
 - debt thresholds, 290
 - debt-to-exports ratio, 286
 - debt-to-GDP ratio, 38, 284
 - deceptive practices, 6
 - deflation
 - 1920s, 51
 - impact on debt, 52
 - impact on production, 52
 - Demirgüç-Kunt, Asli, 273
 - Denmark, 33
 - deposit insurance, 206
 - derivative, 201
 - Detragiache, Enrica, 273
 - Dodd-Frank, 159, 194, 298
 - capital requirements, 161, 222
 - Consumer Finance Protection Bureau (CFPB), 162–163
 - FSOC, 160
 - macroprudential regulation, 160
 - orderly liquidation, 161–162
 - Dodd-Frank Wall Street Reform and Consumer Protection Act. *See* Dodd-Frank
 - Draghi, Mario, 178
 - early warning indicators, 3, 40
 - ECB. *See* European Central Bank
 - ECLA, 96, 106
 - proposed economic reforms, 1960s, 96
 - Economic Commission on Latin America. *See* ECLA
 - economic growth
 - Bretton Woods Period, 59
 - emergence of modern era, 43
 - first era, 43
 - first wave of globalization, 43
 - five eras of modern growth, 43–44
 - Golden Age, 44
 - growth rates, different eras, 45–46
 - Interwar Period, 44
 - second wave of globalization, 44
 - economics
 - behavioral, 6–7
 - Keynesian, 227, 239–240
 - Keynesian models, 229
 - monetarism, 226
 - New Classical, 228
 - New Classical vs. New Keynesian, 229, 245–246
 - pre-Keynesian, 79
 - Ecuador, 39, 97
 - Eichengreen, Barry, 273
 - emerging markets, 115, 124
 - EU. *See* European Union
 - euro
 - assumptions of fiscal integration, 259
 - convergence criteria, 260
 - problems during a recession, 260–261
 - members, 166
 - negotiations, 259
 - worries of fiscal mismanagement, 260
 - European Central Bank, 168
 - emergency actions
 - Outright Monetary Transactions, 178
 - Securities Market Program, 178
 - lender of last resort, absence of, 168
 - monetary tightening, 173
 - no bailout clause, 260
 - single mandate, 173
- European Systemic Risk Board, 298
 - European Union
 - expansionary austerity, 179–181
 - financial globalization, 171
 - focus on business confidence, 179
 - impossibility of transfers, 181
 - origins, 165
 - Stability Growth Pact, 172, 305
 - Eurozone, 11, 14
 - bailouts, 177–178
 - bank bailouts, debate, 171–172
 - borrowing patterns, pre-crisis, 172
 - budget, inadequate, 264

330 INDEX

- Eurozone (cont.)
 capital flows, 2000s, 169
 doom loop, 173, 174–175
 expansionary austerity, 250
 fear of contagion from bank failures, 172
 interest rate convergence, 169, 259–260
 loss of competitiveness in periphery, 170
 missing institutions, 261–263
 problem of sovereignty, 263–264
 real appreciation, 2000s, 169–170
 recovery from recession, 181
 return of recession, 173–174
 rise in debt levels
 Ireland, 176
 Spain, 176
 rules versus institutions, 182, 264–265
 excess reserves, 156
 exchange rate
 flexible, 61
 post-Bretton Woods, 93
 real appreciation, 33–34
 exorbitant privilege, 288
 expectations, modeling, 244
 external debt, 22
- Fama, Eugene, 25
 Fannie Mae, 145–146
 role in Subprime Crisis, 147–148
 support for mortgage market, 146–147
 takeover by US government, 154
 FCIC, 196
 FDIC, 90
 creation, 87
 Federal Deposit Insurance Corporation. *See* FDIC
 Federal Home Loan Mortgage Corporation. *See* Freddie Mac
 Federal Housing Finance Agency, 152
 Federal National Mortgage Association. *See* Fannie Mae
 Federal Reserve
 failure during the Great Depression, 82
 policy, 1920s, 74
 Section 13, 154
 Federal Reserve Bank of Minneapolis, 223
 financial accelerator, 4, 83, 208–209
 financial crisis, 4–5
 1970–2011, 2
 categories, 20–22
 contagion
 common fundamentals, 128
 international linkages, 128
 costs, 1–2
 end of the business cycle, 230
 first wave of globalization, 49
 measurement, 18–20
 quantitative thresholds, 21
 financial repression, 294
 financial sector
 economic models, 5, 8
 Financial Stability Oversight Council. *See* FSOC
 financial supervision, regulation
 assumptions in high income countries, 30–31
 fiscal integration, 300
 fiscal union
 risk sharing, 254, 258
 role in US economy, 254–255
 Fisher, Irving, 27, 207
 fixed exchange rate. *See* exchange rate
 flexible exchange rate. *See* exchange rate
 foreign currency reserves, 34
 France
 deflation, 1920s, 52
 support for euro, 259
 Freddie Mac, 145–146
 role in Subprime Crisis, 147–148
 support for mortgage market, 146–147
 takeover by US government, 154
 Friedman and Schwartz hypothesis, 82–83, 85
 gold standard, cost of credit
 intermediation, 86
 Friedman, Milton
 monetarism, 226
 Monetary History of the United States, 81
 role of Fed during the Great Depression, 82–83
 FSOC, 160, 194
 systemically important financial institutions, 160
- GATT, 56, 60
 Geithner, Timothy, 25
 General Agreement on Tariffs and Trade. *See* GATT
 Germany, 28, 51, 72
 capital flows toward periphery, 169
 deflation, 1920s, 52

- economy during recession, 179
- inflation, pre-crisis, 170
- Stability and Growth Pact, 172
- support for euro, 259
- GIIPS, 166
- global savings glut, 141, 149
- impact on United States, 148–149
- globalization
 - capital flows, 50–51
 - first wave, 31, 46–51
 - capital flows, 32, 47
 - frequency of crises, 49
 - gold standard, 48
 - large-scale projects, 47
 - products traded, 47
 - role of transportation and communication, 46
 - second wave, 61
 - causes of crises, 62–64
 - frequency of crises, 61–62
 - role of transportation and communication, 62
- gold standard, 48
 - 1920s, 73
 - internal versus external conditions, 48, 55
 - obstacle to economic recovery, 54, 87
- Golden Age. *See* Bretton Woods
- Goldman Sachs, 217
- Gordon, Robert, 44
- Gorton, Gary, 205
- government sponsored enterprises (GSEs). *See* Fannie Mae; Freddie Mac
- Great Depression, 11, 27, 41, 48 *See* Interwar Period; Roosevelt, Franklin
 - bank failures, 82
 - bank holiday, United States, 87
 - comprised of two recessions, 76–77
 - conflicting interpretations, 71
 - decline in demand, 78–79
 - economic growth, 76, 88
 - economic importance, 69–70
 - end of gold standard, United States, 87
 - financial accelerator, 84
 - fiscal policy, 89
 - Friedman and Schwartz hypothesis, 82–83
 - GDP decline, US, 78
 - international causes, 72–73
 - risk factors, 76
 - role of the Federal Reserve, 83, 85–86
 - second recession, 88
 - stock market crash, 77–78
- Great Inflation, 240
 - causes, 240–241
- Great Moderation, 230
- Greece, 19, 250
 - austerity in return for bailout, 177
 - bailout, 177
 - borrowers vs. lenders, 294
 - fraudulent budget statistics, 180
 - inflation, pre-crisis, 170
 - interest rate convergence, 169, 259
 - loss of competitiveness, 170
 - rise in debt-to-GDP, 177
- Greenspan, Alan, 185, 193
- GSE. *See* Fannie Mae; Freddie Mac
- Hellwig, Martin, 223
- herd behavior, 6, 17, 25
- Herzog, Jesús Silva, 92
- High Performance Asian Economies. *See* HPAE
- HPAE
 - economic growth
 - debate, 121–123
 - institutions, 123–124
 - macroeconomic stability, 124
 - growth rates, 119
 - recovery from crisis, 134–135
- Hungary, 29
- IMF, 50, 60
 - assumptions about Latin American crisis, 94, 103
 - capital market liberalization, 135–136
 - creation, 56
 - re-evaluation of expansionary austerity, 251
 - response to Asian Crisis, 129, 133
 - criticism of response, 134, 136–137
 - response to criticisms, Asia, 137
- Import substitution industrialization. *See* ISI
- Indonesia, 118, 133
 - contagion, 131
- inflation crisis, 21
- internal debt, 22

332 INDEX

- International Bank for Reconstruction and Development, 57
- International Monetary Fund. *See* IMF
- Interwar Period. *See* Great Depression
- competitive devaluations, 1920s, 75
- credit boom, 1920s, 75
- deflation, 52, 74
- Europe
- decline in demand, 1920s, 79
 - frequency of crises, 52
 - international leadership, 74
 - overvalued British pound, 53–55
 - restoration of gold standard, 53, 73–74
- Ireland
- bailout, 177
 - credit boom, 28
 - inflation, pre-crisis, 170
 - support for banks, 176
- irrational exuberance, 17
- ISI, 106–107
- Japan, 39, 114, 119
- debt level, 281
 - debt overhang, 283
 - economic stagnation, 1990s, 232
 - problems, 1990s, 232–233
- JP Morgan, 153
- Kahneman, Daniel, 189
- Keynes, J.M., 18, 79
- absence of crowding out, 238
 - failure of self-correcting economy, 79–81, 238
 - General Theory of Employment, Interest, and Money*, 79
 - government spending in a recession, 80
 - importance of aggregate demand, 86
 - uncertainty, 79
- Keynesian multiplier, 241, 251
- Keynesianism
- New Classical critique, 244–245
 - problems of fiscal policy, 241–242
 - sticky wages and prices, 228
- Kindleberger, Charles, 17, 18, 29
- importance of international leadership, 73
 - Manias, Panics, and Crashes*, 17
- Kohl, Helmut, 172
- Kose, M. Ayhan, 20, 273
- Krugman, Paul, 232, 235
- Latin America, 94
- currency crises, 1980s, 102
 - economic populism, 95–96
 - impact of US disinflation, 99
 - import substitution industrialization (ISI), 107
 - Lost Decade, 99
 - real appreciation, 1980s, 101–102
 - seigniorage, 1980s, 100–102
 - sovereign defaults, 1980s, 100
 - state-led development, 96
 - tecnopols, 109
 - urbanization after World War II, 93
 - use of currency as nominal anchor, 101–102
- Latin American Debt Crisis, 12, 19
- austerity, failure of, 109
 - borrowers versus lenders, 110–111
 - creditor cartel, 100
 - debt relief, 105, 107–108, 114
 - early diagnoses, 100
 - end of crisis, 108–109, 114
 - exposure of US banks, 103
 - first indicators, 92
 - growth of secondary debt market, 104
 - role of exports, 105–106, 114
 - stabilization and structural adjustment, 107–108
- Lehman bailout, debate, 155, 197–198
- Lehman Brothers, 19, 154
- leverage, 214, 217
- disadvantages in a downturn, 215
 - effect on executive compensation, 216
- liquidity trap, 231
- London, 51
- Lucas, Robert, 230
- Macdougall Report, 264
- macroprudential regulation, 194
- Maddison Project Database 2013, 45
- Maddison, Angus, 45
- Malaysia, 118
- capital controls, 136
- Meissner, Christopher, 273
- Mellon, Andrew, 81
- Merrill Lynch, 154
- Mexico, 94, 97, 100, 101, 103, 104, 105
- capital inflows, 1990s, 115
 - economic reforms, 113, 114
 - emerging market, 115

- oil boom, 92
- onset of debt crisis, 92
- peso crisis, 116–117, 273
- real appreciation, 116
- Minsky, Hyman, 18, 29, 30
 - financial instability hypothesis, 29
- Modigliani-Miller Theorem, 219, 221
- monetarism, 226
- monetary union
 - assumptions of EU leaders, 259
 - benefits assumed in EU, 252
- Monnet, Jean, 259
- Montague, Ashley, 74
- moral hazard, 155, 162, 193
 - bank executives, 214
 - deposit insurance, 206
- mortgage backed securities (MBS), 27
- multiplier, 242, 245, 248
- Mundell, Robert, 256

- narrative bias, 231
- natural experiments, 41
- natural rate of unemployment, 244
- Netherlands, 28
- New Classical synthesis, 228
- Northern Rock, 153
- Noyes, Alexander D., 49

- Occam's razor, 218
- October, 75
 - importance as cause of the Great Depression, 77
- Olivera-Tanzi effect, 101
- optimal currency area, 256
 - Mundell criteria, 256–257
 - need for fiscal integration, 258
 - requirements, 166–168
- orderly liquidation, 161
- overconfidence bias, 6, 13, 17, 217
- overvalued currency, 33–35
 - risks, 24

- Panic of 1907, 49, 299
- pegged exchange rate. *See* exchange rate
- Peru, 92, 97, 101, 108
- Phillips Curve, 243
- phishing for phoools, 189, 191
- Portillo, Lopez, 93

- Portugal
 - bailout, 177
 - inflation, pre-crisis, 170
- Postwar international organizations, 94 *See* IMF, GATT, World Bank
- Prince, Charles, 6
- principal-agent problem, 192
- private debt
 - opacity, 38

- quantitative easing, 156, 225, 233
 - inflation worries, 156

- Rajan, Raghuram, 147
- rating agencies
 - complexity of securities, 203–204
 - failures, 203
 - incentive problems, 203
 - justifications for ratings, 151
- rational expectations, 244
- real appreciation, 34
- recessions
 - acts of nature, 237
 - Keynes' insight, 238
- recycling of petrodollars, 97
- Reinhart, Carmen, 20, 38, 273, 288
- repo. *See* repurchase agreement
- repurchase agreement, 200
- reputation mining, 192
- risk factors, 9, 22
- risk models, 218–219
- Rogoff, Kenneth, 20, 38, 273, 288
- Roosevelt, Franklin, 87, 237
 - bank holiday, 87
 - budget orthodoxy, 89
 - monetary policy, 87

- Schularick, Moritz, 273
- Schwartz, Anna
 - Monetary History of the United States*, 81
 - role of Fed during the Great Depression, 82–83
- Securities and Exchange Commission, 90
- securitization, 201
 - benefits and risks, 202
 - collateralized debt obligation (CDO), 201
 - collateralized debt obligation (CDO), 203

334 INDEX

- securitization (cont.)
 mortgage backed securities (MBS), 201
- Sen, Amartya, 123
 reasons for HPAE growth, 120
- shadow banks, 199
 bank panic, 205–207
 compared to regular banks, 205
 lenders, depositors, 204
 need for short term assets, 210
 regulation, 211
 use of securities, 202
- Shiller, Robert, 25, 188, 283
 new era thinking, 1970s, 98
 psychological factors in a crisis, 25
- SIFI, 161, 194, *See* Dodd-Frank
- Singapore, 119
- six-sigma event, 217
- Skidelsky, Robert, 239
- Smith, Adam
 regulation of banks, 187
- South Korea, 105, 107, 114, 118
 absence of capital controls, 136
- sovereign defaults, 39
- Spain
 credit boom, 28
 inflation, pre-crisis, 170
- Squam Lake Report*, 216
- sticky wages and prices, 7, 228, 246
- Strong, Benjamin, 74
- Subprime Crisis, 11, 13, 14, 19, 26, 30, 65, 71
 bailouts of financial institutions, 154–155
 bank stress tests, 157
 end of, 158
 falling home prices, US, 152
 Federal Reserve balance sheet, 156
 fiscal stimulus, United States, 157
 liquidity trap, 234–235
 new era thinking, 143
 pre-crisis increase in home prices, 144
 private debt, United States, 150–151
 regulatory arbitrage, 151
 spreading to Europe, 28
 the Lehman debate, 155, 197–198
 this time is different syndrome, 143
 too big to fail, 207–208
 unemployment, United States, 153
 weak regulation, US, 150–151
- sudden stop, 21, 36
- sudden stop crisis
 current period, 61
- systemically important financial institutions. *See* Dodd-Frank; SIFI
- Taiwan, 119
- Taylor, Alan M., 273
- Thailand, 13, 62, 118
 current account, 140
 devaluation, 128
 expectations of devaluation, 127–128
 onset of Asian Crisis, 124
 real appreciation, 125, 126–127
The Monetary History of the United States, 226
- too big to fail, 160, 207–208
- trade deficit, 35–37
 need to finance, 35
 policies to shrink, 36
 risks, 24
- Treaty of Rome, 166
- Trichet, Jean-Claude, 172, 173
- trilemma of international finance, 268
- twin crises, 20
- United Kingdom, 39
 debt levels, 281
 deflation, 1920s, 52
 determination to restore gold standard, 73
 gold standard, 48
 official policy of deflation, 1920s, 53
 return to the gold standard, 53
- United States. *See* Subprime Crisis; Great Depression
 1920s, 72
 debt, 279
 deflation, 1920s, 52
 external debt, 22
 fiscal and monetary union, 253
 gold reserves, 1930s, 85
 gold standard, 48
 Great Moderation, 230
 inflation, 1970s, 226
 inflow of foreign savings, 148, 149
 monetary policy cooperation with UK, 1920s, 74
 recessions, 1980 and 1981–82, 95, 99
 role in Bretton Woods exchange rate system, 57

- tax loss due to recession, 280
- trade deficit, 36
- trade deficits under Bretton Woods, 58
- Venezuela, 97, 104, 108
- Viniar, David, 217
- Volcker, Paul
 - disinflation policy, 99, 226
- Washington Consensus, 12
- weak institutions
 - risk factors, 30–31
 - risks, 24
- Werner Report, 257, 261
- World Bank, 50, 57, 60
 - The East Asian Miracle*, 119
- World Trade Organization. *See* WTO
- World War I, 51
- World War II, 55
- Worldwide Governance Indicators, 123
- Wriston, Walter, 110
- WTO, 50, 56, 60