

# Contents

List of Tables	<i>page</i> x
Preface	xi
I. Introduction	1
I.1 More Frequent, More Expensive, Harder to Avoid	1
I.2 Economics, Finance, and History	5
I.3 Plan of the Book	9
 PART I: FINANCIAL CRISES	 15
1. Categories and Risk Factors	17
1.1 An Introduction to Financial Crises	17
1.2 Categories of Financial Crises	20
1.3 Seven Risk Factors	22
1.3.1 Asset Bubbles	24
1.3.2 Credit Booms	28
1.3.3 Weak Supervision and Regulation	30
1.3.4 Capital Market Liberalization	31
1.3.5 Overvalued Currencies	33
1.3.6 Large Trade Deficits	35
1.3.7 Excessive Debt Levels	37
1.4 What Do We Really Know?	40
 2. Growth, Globalization, and Financial Crises	 43
2.1 Modern Economic Growth	43
2.2 Modern Globalization's First Wave: 1914–1950	46
2.2.1 Open Capital Markets	47
2.2.2 The Gold Standard	48
2.2.3 Financial Crises	49

## vi CONTENTS

2.3	Interwar Instability, 1914–1950	51
2.3.1	Deflation	52
2.3.2	Gold and the Great Depression	53
2.4	Bretton Woods and the Golden Age, 1950–1973	55
2.4.1	The Bretton Woods Exchange Rate System	57
2.4.2	The End of Bretton Woods	58
2.5	The Second Globalization Wave, 1973 to the Present	61
2.5.1	Factors Behind the Increase in Financial Crises	62
2.6	Conclusion	64
PART II: FIVE CASE STUDIES		67
3.	The Great Depression, 1929–1939	69
3.1	Why Study the Great Depression?	69
3.2	Factors Leading Up to the Depression	72
3.3	What Caused the Great Depression?	76
3.4	The Keynesian Idea	79
3.5	The Monetarist Response	81
3.6	Two Complications to the Monetarist Story	83
3.7	Economic Recovery and Relapse	87
3.8	Conclusions	90
4.	The Latin American Debt Crisis, 1982–1989	92
4.1	Conditions Leading Up to the Crisis	92
4.2	The IMF's First Global Crisis	94
4.3	The Credit Boom	97
4.4	Varieties of Crises	99
4.5	The Search for Solutions	103
4.6	The Return of Capital Flows	108
4.7	Lessons	109
4.8	From Latin America to East Asia	114
5.	The Asian Crisis, 1997–1999	118
5.1	Stable Economies and Rapid Growth	118

5.2 Explanations for Rapid Growth	120
5.3 The Onset of the Crisis in Thailand	124
5.4 Contagion and Common Fundamentals	128
5.5 Crisis Resolution	132
5.6 The Fallout	135
<b>6. The Subprime Crisis in the United States</b>	<b>143</b>
6.1 Vulnerabilities	143
6.2 Chronology	152
6.2.1 Too Big to Fail	154
6.2.2 Maintaining Credit Availability	156
6.3 Financial Reforms	158
6.3.1 Crisis Prevention	159
6.3.2 Crisis Mitigation	161
6.3.3 Prognosis	163
<b>7. The Financial Crisis in Europe</b>	<b>165</b>
7.1 The Single Currency Project	165
7.2 An Uneven Crisis	169
7.3 Bank Debt Becomes National Debt	171
7.4 The Doom Loop	173
7.5 Emergency Actions	176
7.6 Recessions Prolonged	179
<b>PART III: LESSONS</b>	<b>183</b>
<b>8. Markets Do Not Self-Regulate</b>	<b>185</b>
8.1 Overconfidence in the Market	185
8.2 Market Reality	189
8.3 Empirically Speaking	193
<b>9. Shadow Banks Are Banks</b>	<b>197</b>
9.1 No Bailout?	197
9.2 Shadow Banks	199

## viii CONTENTS

9.3	Securitization	201
9.4	Regulators and Incentives	202
9.5	Shadow Bank Depositors	204
9.6	Bank Panics with Shadow Banks	206
9.7	The Rise of Finance	208
10.	Banks Need More Capital, Less Debt	212
10.1	Other People's Money	212
10.2	Leverage	214
10.3	Limits to Risk Models	217
10.4	Resistance to Increasing Capital	219
10.5	Capital and Risk Reduction	221
11.	Monetary Policy Does Not Always Work	224
11.1	Overconfidence	224
11.2	The Rise of Monetary Policy	225
11.3	New Classical Economics	228
11.4	The Great Moderation	230
11.5	Zero Lower Bound	232
12.	Fiscal Multipliers Are Larger Than Expected	237
12.1	Acts of Nature	237
12.2	The Keynesian Consensus	239
12.3	The Multiplier	241
12.4	Expectations	243
12.5	Keynesians and Anti-Keynesians	245
12.6	Testing Ideas with a Crisis	248
13.	Monetary Integration Requires Fiscal Integration	252
13.1	The Grand Experiment	252
13.2	The United States Is a Monetary and Fiscal Union	253
13.3	The Euro and Optimal Currency Areas	256
13.4	Promoting the Euro	257
13.5	Missing Institutions	261

14. Open Capital Markets Can Be Dangerous	266
14.1 Assume There Are Benefits	266
14.2 Capital Market Liberalization Defined	267
14.3 From Open Capital Markets to a Financial Crisis	270
14.4 Open Capital Markets and Economic Growth	274
14.5 Should Countries Close Their Capital Markets?	277
15. Not All Debt Is Created Equal	279
15.1 Fear of a US Debt Crisis	279
15.2 Households, Businesses, and Governments	282
15.3 Sovereign Debt Crises	284
15.4 A Second Look at the United States	288
15.5 Getting Out of Debt	292
Conclusion	296
Abbreviations and Acronyms	304
Bibliography	306
Index	327