The First Global Financial Crisis of the 21st Century

A VoxEU.org Publication
# Contents

<table>
<thead>
<tr>
<th>Section 1 Why Did the Crisis Happen?</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The relationship between the recent boom and the current delinquencies in subprime mortgages</td>
<td>5</td>
</tr>
<tr>
<td>Giovanni Dell'Ariccia, Deniz Igan and Luc Laeven</td>
<td></td>
</tr>
<tr>
<td>Why bank risk models failed</td>
<td>7</td>
</tr>
<tr>
<td>Avinash Persaud</td>
<td></td>
</tr>
<tr>
<td>Blame the models</td>
<td>11</td>
</tr>
<tr>
<td>Jon Danielsson</td>
<td></td>
</tr>
<tr>
<td>The subprime crisis: observations on the emerging debate</td>
<td>13</td>
</tr>
<tr>
<td>Charles Wyplosz</td>
<td></td>
</tr>
<tr>
<td>The subprime series, part 1: Financial crises are not going away</td>
<td>17</td>
</tr>
<tr>
<td>Stephen G. Cecchetti</td>
<td></td>
</tr>
<tr>
<td>The subprime series, part 2: Deposit insurance and the lender of last resort</td>
<td>21</td>
</tr>
<tr>
<td>Stephen G. Cecchetti</td>
<td></td>
</tr>
<tr>
<td>The subprime series, part 3: Why central banks should be financial supervisors</td>
<td>25</td>
</tr>
<tr>
<td>Stephen G. Cecchetti</td>
<td></td>
</tr>
<tr>
<td>The subprime series, part 4: Does well-designed monetary policy encourage risk-taking?</td>
<td>29</td>
</tr>
<tr>
<td>Stephen G. Cecchetti</td>
<td></td>
</tr>
<tr>
<td>The subprime crisis: Greenspan's Legacy</td>
<td>33</td>
</tr>
<tr>
<td>Tito Boeri and Luigi Guiso</td>
<td></td>
</tr>
<tr>
<td>The impact of short-term interest rates on risk-taking: hard evidence</td>
<td>37</td>
</tr>
<tr>
<td>Vasso P. Ioannidou, Steven Ongena and Jose Luis Peydró</td>
<td></td>
</tr>
<tr>
<td>Why did bank supervision fail?</td>
<td>41</td>
</tr>
<tr>
<td>Guido Tabellini</td>
<td></td>
</tr>
</tbody>
</table>
The subprime crisis and credit risk transfer: something amiss
Luigi Spaventa

The crisis of 2007: some lessons from history
Michael D. Bordo

Reflections on the international dimensions and policy lessons of the US subprime crisis
Carmen M. Reinhart

Section 2 How Is the Crisis Unfolding?

Federal Reserve policy actions in August 2007: frequently asked questions (updated)
Stephen G. Cecchetti

An extensive but benign crisis?
Tommaso Monacelli

Not (yet) a ‘Minsky moment’
Charles W. Calomiris

A B & B future for subprime borrowers?
Willem Buiter

Double counting 101: the useful distinction between inside and outside assets
Willem Buiter

Bagehot, central banking and the financial crisis
Xavier Vives

The financial crisis: why it may last
Angel Ubide

Fallout from the credit crunch
Dennis J. Snower

Four mega-dangers international financial markets face
Dennis J. Snower

Federal Reserve policy responses to the crisis of 2007–8: a summary
Stephen G. Cecchetti

While the ECB ponders, the Fed moves – and cleverly at that
Charles Wyplosz
Section 3 What Can Be Done? 119

The subprime crisis: Who pays and what needs fixing 121
Marco Onado

Filling the information gap 125
Alberto Giovannini and Luigi Spaventa

Lessons from the North Atlantic financial crisis 129
Willem Buiter

Lessons from Northern Rock: banking and shadow banking 133
Willem Buiter

Lessons from Northern Rock: how to handle failure 137
Willem Buiter

Ratings agency reform 145
Richard Portes

How to avoid further credit and liquidity confidence crises 151
Guillermo de la Dehesa

The inappropriateness of financial regulation 155
Avinash Persaud

There is more to central banking than inflation targeting 159
Paul De Grauwe

Can monetary policy really be used to stabilize asset prices? 163
Katrin Assenmacher-Wesche and Stefan Gerlach

A missed opportunity for the Fed 167
Willem Buiter and Anne Sibert

The central bank as the market-maker of last resort: from lender of last resort to market-maker of last resort 171
Willem Buiter and Anne Sibert

Avoiding disorderly deleveraging 179
Luigi Spaventa

Chronology 183
Glossary 191