# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Table of Contents</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>7</td>
</tr>
</tbody>
</table>

## Financial Markets and the Central Bank

*by Axel A. Weber*

1. Introduction 15
2. Financial markets and monetary policy transmission 16
3. Financial stability 18
4. Financial integration in the euro area 23
5. Concluding remarks 25

## Should Monetary Policy respond to Asset Price Bubbles?

*Revisiting the Debate*

*by Sushil Wadhwani*

1. Executive Summary 29
2. Introduction 31
3. The case for “Leaning against the wind” 33
4. Commonly advanced objections to LATW 37
5. Are we better off just mopping up after the bubble bursts? 41
6. Can we just rely on an inflation targeting system? 43
7. Can LATW work in Practice? The Swedish Case 47
8. Potential Changes to the Regulatory Framework 48
9. Conclusions 50

References 51

## An alternative approach to regulation of collective investment schemes:

*from asset allocation to risk budgeting*

*by Andrea Vivoli*

1. Introduction 55
2. European regulatory approach on matter of risk 57
3. Cluster analysis 67
4. An alternative approach: risk budgeting 81
5. Conclusion 98

ANNEX A 100
ANNEX B 104
ANNEX C 106

References 114
A Financial Stability Approach to the Appropriate Regulation of Hedge Funds

by Jesper Ulriksen Thuesen

Summary 119
1. Background: Tendencies in the development of hedge funds 121
2. Implications for financial stability 126
3. Regulating hedge funds and supporting financial stability 131
References 138

The Sub-Prime Crisis: Some Lessons for Financial Supervisors

by Fernando Restoy

Abstract 143
1. Introduction 146
2. Transparency 148
3. Rating Agencies 159
4. Liquidity 165
5. Supervisory Arrangements 172
6. Concluding Remarks 175
References 177

The Housing Bubble, Liquidity and Central Banks

by John P. Calverley

Synopsis 181
1. Introduction 183
2. The housing bubble 185
3. The effects of rising house prices 189
4. The linkages to liquidity 193
5. Liquidity during the crisis 195
6. The effects of falling house prices 197
7. Should the authorities attempt to limit house price declines? 203
8. Conclusion 206

SUERF – Société Universitaire Européenne de Recherches Financières 209
SUERF STUDIES 211
SUERF COLLOQUIUM VOLUME 212