

Engineering the Financial Crisis

Systemic Risk
and the Failure
of Regulation

Jeffrey Friedman
and
Wladimir Kraus

PENN

UNIVERSITY OF PENNSYLVANIA PRESS

PHILADELPHIA

CONTENTS

List of Figures and Tables	vii
Glossary of Abbreviations and Acronyms	ix
Introduction	1
1 Bonuses, Irrationality, and Too-Bigness: The Conventional Wisdom About the Financial Crisis and Its Theoretical Implications	5
2 Capital Adequacy Regulations and the Financial Crisis: Bankers' and Regulators' Errors	57
3 The Interaction of Regulations and the Great Recession: Fetishizing Market Prices	86
4 Capitalism and Regulation: Ignorance, Heterogeneity, and Systemic Risk	112
Conclusion	144
Appendix I. Scholarship About the Corporate-Compensation Hypothesis	157
Appendix II. The Basel Rules off the Balance Sheet	163
Notes	175
References	189
Index	201
Acknowledgments	211