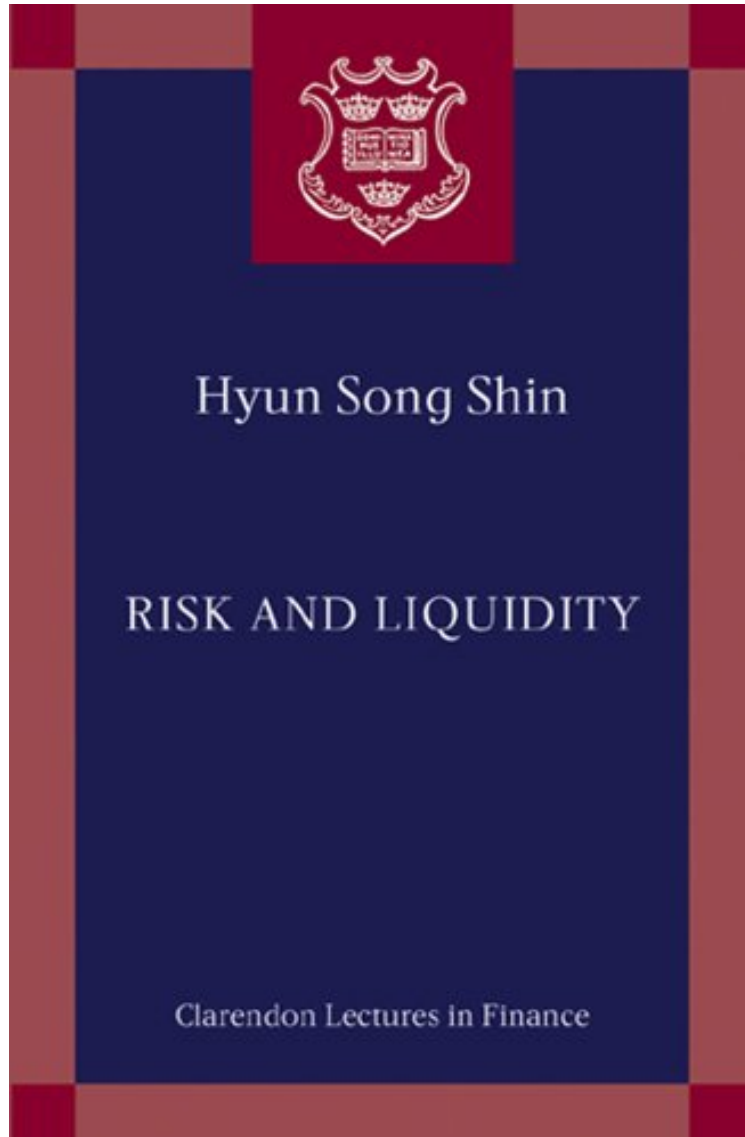


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Risk and Liquidity (Clarendon Lectures in Finance)

Hyun Song Shin

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Hyun Song Shin : Risk and Liquidity (Clarendon Lectures in Finance) before purchasing it in order to gauge whether or not it would be worth my time, and all praised Risk and Liquidity (Clarendon Lectures in Finance):

15 of 15 people found the following review helpful. An important contribution whose ideas preceded the crisis and that holds promise for futureBy Viral AcharyaThe Clarendon lectures by Hyun Shin represent collection of ideas he has developed over the past 10-15 years.Many of these ideas preceded the financial crisis and were in fact prescient as to how the crisis came about.While the book touches in important ways on both aspects of its title "risk" and "liquidity", the ideas about riskare the most potent and in fact drive the book's thesis about liquidity.The key idea is

simple and explained beautifully well: that much of modern risk management - both inside banks and that which is adopted by Basel capital requirements - is highly firm-centric or partial equilibrium in view. It does not recognize that individual agents, taking the same action in interest of reducing each one's risk in isolation can in fact make the system more fragile. These common actions could be building exposures to mortgage-backed securities because Basel has encouraged them to do by lower capital requirements, or liquidating assets all at once since they have all hit their risk limits based on common model assumptions. That risk of the system is thus ENDOGENOUS to the very rules that are designed to reduce this risk is a subtle point that can help understand much of what went in lead-up and unfolding of the recent crisis. It also helps understand why financial firms and their employees, working each in their own self-interests, found it surprising that the aggregate outcome of their actions was so calamitous. The book also builds rich ideas around liquidity in asset markets and on balance-sheets, in turn being endogenous to choices of agents in the economy, and how measures adopted to limit agency problems such as mark-to-market accounting can similarly exacerbate market liquidity in times when several firms are close to their risk management constraints at once. The book then goes on to suggest sound principles for - especially MACRO-PRUDENTIAL - regulation of the financial system, principles that recognize the fallacy of composition and that guard against the fact that risk and liquidity are endogenous to regulation itself. The author, as part of a group of colleagues at London School of Economics (along with Charles Goodhart in particular) had forewarned in 2002 in a report that Basel risk-weights are likely to endogenously make certain asset classes more systemic and the economic cycle more severe in a downturn. Their academic thinking, like that of some others, however went unheeded. The hope is that the ideas in these Clarendon lectures will receive more serious attention and can be kept in mind as financial regulation is rewritten. I encourage everyone interested in financial markets, crises and regulation to read this important contribution, in academia, practice and policy alike.

1 of 1 people found the following review helpful. I really like the author's English writing. By Ritong Qu. One additional point: I really like the author's English writing. His words have force.

0 of 1 people found the following review helpful. Book by the Master. By George B. Purdy. What luck! A book by the world's greatest expert on Global Finance. And he spent 10 years writing it, so it's not just thrown together. To give some idea of his power: Recently Hyun solved the riddle of why the emerging markets went crazy when Bernanke hinted at a possible tapering of QE in the Summer of 2013. Hyun presented his explanation at a meeting of the San Francisco Federal Reserve. You can find it in the Financial Times written by Martin Wolf, the Head Economist at FT. Basically the private sector bonds of the EMs have become huge, and we can expect more volatility in the future.

This book presents the Clarendon Lectures in Finance by one of the leading exponents of financial booms and crises. Hyun Song Shin's work has shed light on the recent global financial crisis and he has been a central figure in the policy debates. The paradox of the global financial crisis is that it erupted in an era when risk management was at the core of the management of the most sophisticated financial institutions. This book explains why. The severity of the crisis is explained by financial development that put marketable assets at the heart of the financial system, and the increased sophistication of financial institutions that held and traded the assets. Step by step, the lectures build an analytical framework that take the reader through the economics behind the fluctuations in the price of risk and the boom-bust dynamics that follow. The book examines the role played by market-to-market accounting rules and securitisation in amplifying the crisis, and draws lessons for financial architecture, financial regulation and monetary policy. This book will be of interest to all serious students of economics and finance who want to delve beneath the outward manifestations to grasp the underlying dynamics of the boom-bust cycle in a modern financial system - a system where banking and capital market developments have become inseparable.

Hyun Song Shin is one of the leading scholars on financial stability in the world. This book provides a very accessible summary of this work. It is essential reading for all academics and practitioners interested in financial crises. * Franklin Allen, Nippon Life Professor of Finance and Economics, The Wharton School of the University of Pennsylvania and author of *Understanding Financial Crises* (OUP) * This book is a "must-read" for students, scholars and policy makers who would like to decipher the subprime crisis. Hyun Shin has an extraordinary talent for designing simple models that explain complicated phenomena. * Jean Charles Rochet, Professor of Economics, Toulouse School of Economics (TSE) * In the Great Recession, the world has looked for leading economists to offer a new and better understanding of macroeconomic instability, as Keynes did in the Great Depression. In this book, Hyun Song Shin delivers what was needed. Step by step, he develops a new comprehensive understanding of how macroeconomic booms and busts can be derived from microeconomic forces in the banking system. This book should be recognized as a major contribution to macroeconomic theory. * Roger Myerson, Nobel Laureate in Economics 2007, Glen A. Lloyd Distinguished Service Professor Department of Economics, University of Chicago * About the Author Before joining Princeton in 2006, Hyun Song Shin was Professor of Finance at the London School of Economics. He is a leading exponent of financial booms and crises, and has been a leading figure in the policy debates during the financial crisis. He has written extensively for both an academic and practitioner audience on financial risk, financial regulation and monetary policy. He has served as editor or editorial board member of several scholarly journals, and has served in an

advisory capacity to central banks and policy organizations on financial stability issues. He is a fellow of the Econometric Society and of the British Academy.