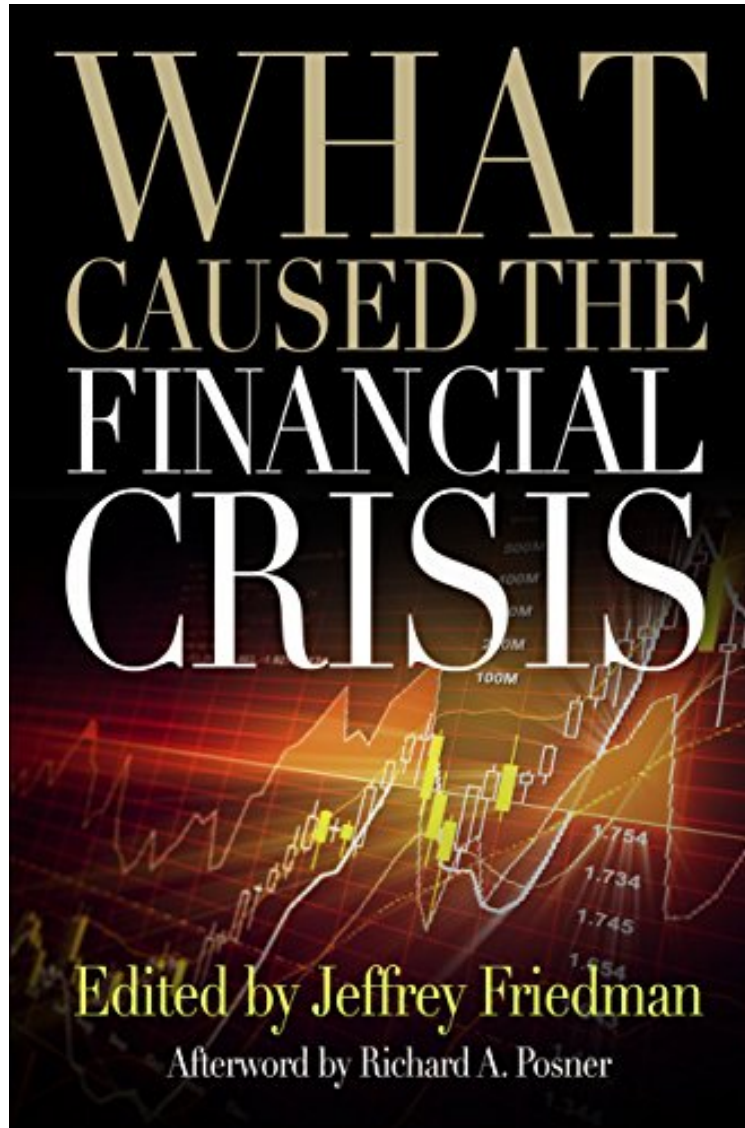


(Free) What Caused the Financial Crisis

What Caused the Financial Crisis

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From University of Pennsylvania Press : What Caused the Financial Crisis before purchasing it in order to gauge whether or not it would be worth my time, and all praised What Caused the Financial Crisis:

0 of 0 people found the following review helpful. Great book!By Cesar Pedro NoyaExcellent source to understand the crisis and how our once revered and respected banking system fell into corruption ,disgrace and greed with the political class as their main accomplice in crime. But at the same time gives us hope and a path to reinvindication if a serious action plan is assumed.8 of 11 people found the following review helpful. The astrologers ponder the origin of the meteorBy Dr. ToadLet me first say that this is an outstanding book on the most important issue of the day. It

should be required reading for anyone - but then again so should be the note on one's mortgage. Or one's tax return, for that matter. An august group of Economists, from both sides of the political divide (the politics are quite visible) convene to answer the questions "Was this a failure of Capitalism, of Regulation (by omission or by commission) or of the Economics profession itself?" I think the title of my review expresses my own opinion. The book is a collection of essays bracketed by overviews by Jeffrey Friedman (a "red economist") and Richard Posner (a "blue" one). Each reviews the factors cited in the previous review and weighs in on their assessment of the importance of each. The essays are divided into three parts - in the first, the disaster is considered in historical context, going back to the roaring 20's, and discussing the evolution of finance and government policy to the present. In the second, the contributing factors are examined in detail - monetary policy, political factors, Fannie Mae, Freddie Mac, the securitization of mortgage debt, the rating thereof by SP, Moody's and Fitch, the Basel accords and swaps. The picture that emerges is that of the unintended consequences of regulatory good intentions. A healthy (yet lustful, insouciant and somewhat impulsive) man is prescribed a handful of well-tested medications, and they interact in a way that lands him in the ICU where he remains to this day. All the material is thought-provoking. But what I found fascinating was the third group of essays in which the profession itself is put in the dock. Daron Acemoglu ruminates on the continued existence of the business cycle, the importance of "institutions" (which he does not define, but hints that they provide "incentives"), and observes that when performing due diligence, it is not sufficient to observe that one's counterparty has a good reputation. Really, Daron? Buying a credit-default swap from Goldman isn't the same as buying a cola with a red and white logo on the can? He states "The intellectual argument for the financial bailouts in September of 2008 was that the organizations clearly responsible for the problems that we are in today should nonetheless be saved because they are the only ones with the 'specific capital' to get us out of our current predicament". That's not an intellectual argument - it's Stockholm syndrome. Daron has good company with the Nobel laureate Joseph Stiglitz who occupies an entire chapter weaving political conspiracy theories titled "Anatomy of a Murder". Only the murder of your own reputation, sir - apparently Nobel laureates in Economics cannot be inconvenienced to formulate actual thoughts. The final chapter, titled "The Financial Crisis and the Systemic Failure of the Economics Profession", indeed delves hard and deep into the desires of the Social Science that wants very much to be a Hard Science, but which lacks elements like the repeatability of experiments and time invariance. The marriage of economics to politics is evident everywhere in this book and, like Journalism (similarly married), Economics is ripe for a real case of "creative destruction". Indeed, when Pharoah has indulged the astrologers so that they might read the fate of his kingdom in the sky, why should he not respond to the crater where his capital once lay by taking out their still-beating hearts and hurl them down the steps of the temple? It might work. God knows a raft of Nobel prizes didn't. 28 of 30 people found the following review helpful. What caused the financial crisis? Was it the capitalism or the regulations? By Jean Parmesan The financial crisis of 2008 was unusual, but not unprecedented. Over the past 25 years, there have been a string of financial crises including the 1984 bankruptcy of Continental Illinois, the 1987 stock market crash, the 1995 Mexican peso crisis, the 1998 bailout of LTCM and the 2000 internet stock bubble. Under a system of regulated capitalism, the operative question is who is at fault? Was it the government technocrats or the greedy capitalists? Editor Jeffrey Friedman takes a Hayekian approach to the most recent financial crisis of 2008 and concludes, along with his contributors, that the primary problem was information failure (i.e. ignorance on the part of regulators and market participants). But, he makes an important distinction: information failures work very differently among regulators and market participants. While there may be heterogeneous opinions among regulators as to the correct regulations, only one theory gets codified into law. In contrast, discordant theories between market participants lead to competition and a darwinian weeding out of erroneous strategies via profits and losses. In order for pragmatic regulation to work, regulators must be able to anticipate the unintended consequences of a given regulation considered in isolation as well as the interaction of a regulation with previously codified regulations. Friedman and his contributors conclude that the following regulations interacted in unexpected ways to produce the crisis: 1. SEC decisions in 1970s which produced a ratings cartel among three credit rating firms. This disabled competition and information in the financial markets. 2. HUD directives in the 1990s which spurred nonprime and subprime lending by Freddie and Fannie Mac. 3. The loose monetary policies of the federal reserve commencing in 2001 which produced a spate of artificially low interest rates. 4. The Basel accords enacted in the US in the 1990s which conferred significant capital advantages to banks who securitized loans through Freddie and Fannie. 5. Non-recourse laws passed by different states over the years, which enabled borrowers to default with little consequence. Combine these policies with the ever present principal/agent problem in markets and the result was the significant undermining of market discipline and prudence. CEOs and investment firm employees earned large bonuses securitizing dubious loans and homeowners with underwater mortgages were able to default with little financial consequence. Equity holders may have taken a large haircut, but bondholders walked away nearly scot free. The taxpayer was the only party left to pick up the tab. Essays in the book include contributions from Nobel laureates Vernon Smith and Joseph Stiglitz as well as several other economists including Amar Bhide, Peter Wallison, Larry White, Daron Acemoglu, John Taylor and Richard Posner. This book is the most complete series of essays on the financial crisis of 2008 that I have read. Highly recommended.

The deflation of the subprime mortgage bubble in 2006-7 is widely agreed to have been the immediate cause of the collapse of the financial sector in 2008. Consequently, one might think that uncovering the origins of subprime lending would make the root causes of the crisis obvious. That is essentially where public debate about the causes of the crisis began—and ended—in the month following the bankruptcy of Lehman Brothers and the 502-point fall in the Dow Jones Industrial Average in mid-September 2008. However, the subprime housing bubble is just one piece of the puzzle. Asset bubbles inflate and burst frequently, but severe worldwide recessions are rare. What was different this time? In *What Caused the Financial Crisis* leading economists and scholars delve into the major causes of the worst financial collapse since the Great Depression and, together, present a comprehensive picture of the factors that led to it. One essay examines the role of government regulation in expanding home ownership through mortgage subsidies for impoverished borrowers, encouraging the subprime housing bubble. Another explores how banks were able to securitize mortgages by manipulating criteria used for bond ratings. How this led to inaccurate risk assessments that could not be covered by sufficient capital reserves mandated under the Basel accords is made clear in a third essay. Other essays identify monetary policy in the United States and Europe, corporate pay structures, credit-default swaps, banks' leverage, and financial deregulation as possible causes of the crisis. With contributions from Richard A. Posner, Vernon L. Smith, Joseph E. Stiglitz, and John B. Taylor, among others, *What Caused the Financial Crisis* provides a cogent, comprehensive, and credible explanation of why the crisis happened. It will be an essential resource for scholars and students of finance, economics, history, law, political science, and sociology, as well as others interested in the financial crisis and the nature of modern capitalism and regulation.

"You will find in this collection some of the best efforts so far to understand the financial crisis."—Edmund Phelps, Columbia University
About the Author Jeffrey Friedman is a visiting scholar in the Department of Government at the University of Texas, Austin and Max Weber Senior Fellow at the Institute for Advancement of the Social Sciences, Boston University. He is the editor of *Critical*.