Lecture 8: Brunnermeier and Reis, Ch. 5-8

ECON 43370: Financial Crises

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Ch. 5: Systemic Risk, Amplification, and Contagion

How have changes in the financial sector affected amplification of shocks?

- strategic complements vs. substitutes
- Nash equilibrium
- adverse feedback loop
- fire sales
- liquidity spirals
- multiplicity
- pecuniary externality

Ch. 5: Applications

1. Irish banking sector
   - VaR and ΔCoVaR
   - stress tests
2. Emerging markets storm, 1997-98
   - currency depreciation and speculative attacks

Ch. 6: Theory

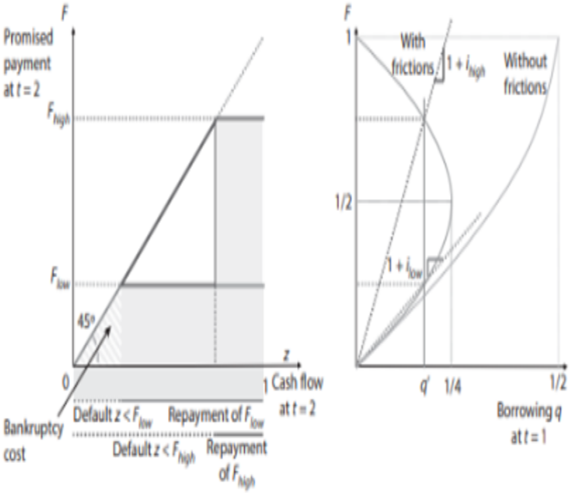

FIGURE 6.1. Solvency and liquidity with debt

Ch. 6: Applications

- Run on German banking system
  - Distinction between wholesale and interbank funding (pg. 59)
  - Role of gold standard
- Greek sovereign debt crises

Ch. 6: Discussion

- Understanding the preference for debt over equity
- Why is debt with a high probability of default like equity?
- Why is it hard to distinguish between insolvency and illiquidity in real time?
- How do we think about the solvency of a government?
- What are the advantages of long-term as opposed to short-term debt?

Ch. 7: Theory

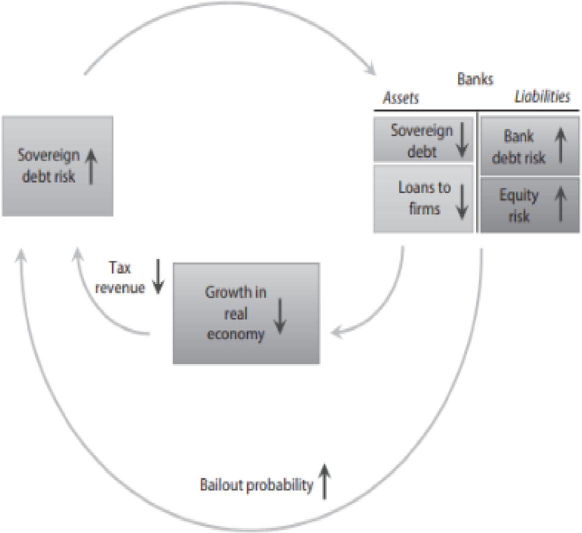

FIGURE 7.1. Diabolic loop between sovereign risk and financial risk

Ch. 7: Applications

- European banks and sovereigns
- Argentina's 2001-02 crisis

Terms:

- Safe securities
- Moral suasion
- Primary dealers

Ch. 8: Safe Assets

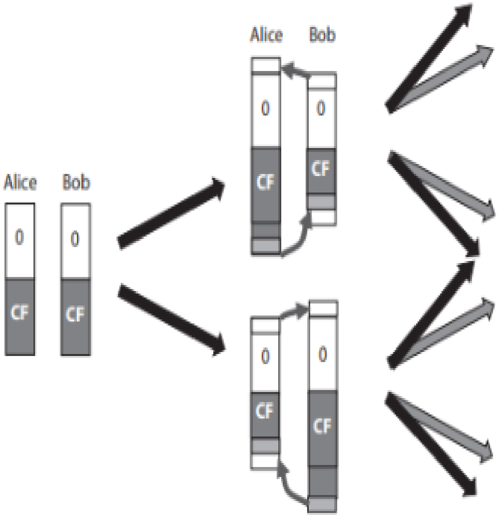

FIGURE 8.1. Trading a safe asset between Alice and Bob

Ch. 8

What is a safe asset?

The Euro crisis 2010-12

What does it mean for a security to be "information-sensitive"?

Why did capital flow from emerging to developed economies in 2020?

How did the Fed protect US Treasury "safe asset" status?