Contents

Foreword xi
Acknowledgments xiii

PROLOGUE: A BIRD’S-EYE VIEW
The Financial Crisis of 2007–2009: Causes and Remedies 1
Viral V. Acharya, Thomas Philippon, Matthew Richardson, and Nouriel Roubini

PART ONE
Causes of the Financial Crisis of 2007–2009 57
Matthew Richardson

CHAPTER 1
Mortgage Origination and Securitization in the Financial Crisis 61
Dwight Jaffee, Anthony W. Lynch, Matthew Richardson, and Stijn Van Nieuwerburgh

CHAPTER 2
How Banks Played the Leverage Game 83
Viral V. Acharya and Philipp Schnabl

CHAPTER 3
The Rating Agencies: Is Regulation the Answer? 101
Matthew Richardson and Lawrence J. White

PART TWO
Financial Institutions 117
Matthew Richardson

CHAPTER 4
What to Do about the Government-Sponsored Enterprises? 121
Dwight Jaffee, Matthew Richardson, Stijn Van Nieuwerburgh, Lawrence J. White, and Robert E. Wright
CONTENTS

CHAPTER 5
Enhanced Regulation of Large, Complex Financial Institutions 139
Anthony Saunders, Roy C. Smith, and Ingo Walter

CHAPTER 6
Hedge Funds in the Aftermath of the Financial Crisis 157
Stephen J. Brown, Marcin Kacperczyk, Alexander Ljungqvist,
Anthony W. Lynch, Lasse H. Pedersen, and
Matthew Richardson

PART THREE
Governance, Incentives, and Fair Value Accounting Overview 179
Viral V. Acharya and Rangarajan K. Sundaram

CHAPTER 7
Corporate Governance in the Modern Financial Sector 185
Viral V. Acharya, Jennifer N. Carpenter, Xavier Gabaix,
Kose John, Matthew Richardson, Marti G. Subrahmanyam,
Rangarajan K. Sundaram, and Eitan Zemel

CHAPTER 8
Rethinking Compensation in Financial Firms 197
Gian Luca Clementi, Thomas F. Cooley, Matthew Richardson,
and Ingo Walter

CHAPTER 9
Fair Value Accounting: Policy Issues Raised by the Credit Crunch 215
Stephen G. Ryan

PART FOUR
Derivatives, Short Selling, and Transparency 229
Viral V. Acharya

CHAPTER 10
Derivatives: The Ultimate Financial Innovation 233
Viral V. Acharya, Menachem Brenner, Robert F. Engle,
Anthony W. Lynch, and Matthew Richardson
Contents

CHAPTER 11  
Centralized Clearing for Credit Derivatives 251  
Viral V. Acharya, Robert F. Engle, Stephen Figlewski, Anthony W. Lynch, and Marti G. Subrahmanyam

CHAPTER 12  
Short Selling 269  
Menachem Brenner and Marti G. Subrahmanyam

PART FIVE  
The Role of the Federal Reserve 277  
Thomas F. Cooley and Thomas Philippon

CHAPTER 13  
Regulating Systemic Risk 283  
Viral V. Acharya, Lasse H. Pedersen, Thomas Philippon, and Matthew Richardson

CHAPTER 14  
Private Lessons for Public Banking: The Case for Conditionality in LOLR Facilities 305  
Viral V. Acharya and David K. Backus

PART SIX  
The Bailout 323  
Thomas F. Cooley and Thomas Philippon

CHAPTER 15  
The Financial Sector Bailout: Sowing the Seeds of the Next Crisis? 327  
Viral V. Acharya and Rangarajan K. Sundaram

CHAPTER 16  
Mortgages and Households 341  
Andrew Caplin and Thomas F. Cooley

CHAPTER 17  
Where Should the Bailout Stop? 353  
Edward I. Altman and Thomas Philippon
CONTENTS

PART SEVEN

International Coordination 363

CHAPTER 18

International Alignment of Financial Sector Regulation 365
Viral V. Acharya, Paul Wachtel, and Ingo Walter

About the Authors 377

Index 381