# The Risks of Financial Institutions



A National Bureau of Economic Research Conference Report

# The Risks of Financial Institutions

Edited by Mark Carey and René M. Stulz

The University of Chicago Press

Chicago and London

MARK CAREY is finance project manager in the Division of International Finance at the Federal Reserve Board and codirector of the National Bureau of Economic Research (NBER) Working Group on Risks of Financial Institutions. René M. Stulz is the Everett D. Reese Chair of Banking and Monetary Economics at Ohio State University, codirector of the NBER Working Group on Risks of Financial Institutions, and a research associate of the NBER.

The University of Chicago Press, Chicago 60637 The University of Chicago Press, Ltd., London © 2006 by the National Bureau of Economic Research All rights reserved. Published 2006 Printed in the United States of America

15 14 13 12 11 10 09 08 07 06 1 2 3 4 5 ISBN-13: 978-0-226-09285-0 (cloth) ISBN-10: 0-226-09285-2 (cloth)

Library of Congress Cataloging-in-Publication Data

The risks of financial institutions / edited by Mark Carey and René M. Stulz.

p. cm. — (NBER conference report)
 Papers presented at a conference held in Woodstock, Vt., on Oct. 22–23, 2004.

Includes bibliographical references and index. ISBN-13: 978-0-226-09285-0 (cloth: alk. paper)

ISBN: 10: 0-226-09285-2 (cloth: alk. paper)

1. Financial institutions—Congresses. 2. Risk—Congresses.

3. Financial crises—Congresses. I. Carey, Mark S. (Mark Steven) II. Stulz, René M. III. Series.

HG173 .R562 2006

332.1068'1-dc22

2006044550

⊗ The paper used in this publication meets the minimum requirements
of the American National Standard for Information Sciences—
Permanence of Paper for Printed Library Materials, ANSI Z39.481992.

## National Bureau of Economic Research

### Officers

Elizabeth E. Bailey, chairman John S. Clarkeson, vice-chairman Martin Feldstein, president and chief executive officer Susan Colligan, vice president for

Susan Colligan, vice president for administration and budget and corporate secretary Robert Mednick, treasurer Kelly Horak, controller and assistant corporate secretary Gerardine Johnson, assistant corporate secretary

# **Directors at Large**

Peter C. Aldrich Jessica P. Einhorn Laurence H. Meyer Elizabeth E. Bailey Martin Feldstein Michael H. Moskow Jacob A. Frenkel Alicia H. Munnell John H. Biggs Andrew Brimmer Judith M. Gueron Rudolph A. Oswald John S. Clarkeson Robert S. Hamada Robert T. Parry Karen N. Horn Don R. Conlan Richard N. Rosett Kathleen B. Cooper Judy C. Lewent Marina v. N. Whitman George C. Eads John Lipsky Martin B. Zimmerman

# **Directors by University Appointment**

George Akerlof, California, Berkeley
Jagdish Bhagwati, Columbia
Ray C. Fair, Yale
Michael J. Brennan, California, Los Angeles
Glen G. Cain, Wisconsin
Franklin Fisher, Massachusetts Institute

of Technology
Saul H. Hymans, Michigan

Marjorie B. McElroy, *Duke* 

Joel Mokyr, Northwestern
Andrew Postlewaite, Pennsylvania
Uwe E. Reinhardt, Princeton
Nathan Rosenberg, Stanford
Craig Swan, Minnesota
David B. Yoffie, Harvard
Arnold Zellner (Director Emeritus),
Chicago

### **Directors by Appointment of Other Organizations**

Richard B. Berner, *National Association* for Business Economics Gail D. Fosler, *The Conference Board* 

Martin Gruber, American Finance
Association

Arthur B. Kennickell, American Statistical Association

Thea Lee, American Federation of Labor and Congress of Industrial Organizations William W. Lewis, Committee for Economic Development Robert Mednick, American Institute of Certified Public Accountants Angelo Melino, Canadian Economics Association Jeffrey M. Perloff, American Agricultural

Economics Association
John J. Siegfried, American Economic
Association

Gavin Wright, Economic History Association

### **Directors Emeriti**

Carl F. Christ Franklin A. Lindsay Eli Shapiro
George Hatsopoulos Paul W. McCracken Arnold Zellner
Lawrence R. Klein Peter G. Peterson

# Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

- 1. The object of the NBER is to ascertain and present to the economics profession, and to the public more generally, important economic facts and their interpretation in a scientific manner without policy recommendations. The Board of Directors is charged with the responsibility of ensuring that the work of the NBER is carried on in strict conformity with this object.
- 2. The President shall establish an internal review process to ensure that book manuscripts proposed for publication DO NOT contain policy recommendations. This shall apply both to the proceedings of conferences and to manuscripts by a single author or by one or more coauthors but shall not apply to authors of comments at NBER conferences who are not NBER affiliates
- 3. No book manuscript reporting research shall be published by the NBER until the President has sent to each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the above principles of the NBER. Such notification will include a table of contents and an abstract or summary of the manuscript's content, a list of contributors if applicable, and a response form for use by Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied and the main conclusions reached.
- 4. No volume shall be published until forty-five days have elapsed from the above notification of intention to publish it. During this period a copy shall be sent to any Director requesting it, and if any Director objects to publication on the grounds that the manuscript contains policy recommendations, the objection will be presented to the author(s) or editor(s). In case of dispute, all members of the Board shall be notified, and the President shall appoint an ad hoc committee of the Board to decide the matter; thirty days additional shall be granted for this purpose.
- 5. The President shall present annually to the Board a report describing the internal manuscript review process, any objections made by Directors before publication or by anyone after publication, any disputes about such matters, and how they were handled.
- 6. Publications of the NBER issued for informational purposes concerning the work of the Bureau, or issued to inform the public of the activities at the Bureau, including but not limited to the NBER Digest and Reporter, shall be consistent with the object stated in paragraph 1. They shall contain a specific disclaimer noting that they have not passed through the review procedures required in this resolution. The Executive Committee of the Board is charged with the review of all such publications from time to time.
- 7. NBER working papers and manuscripts distributed on the Bureau's web site are not deemed to be publications for the purpose of this resolution, but they shall be consistent with the object stated in paragraph 1. Working papers shall contain a specific disclaimer noting that they have not passed through the review procedures required in this resolution. The NBER's web site shall contain a similar disclaimer. The President shall establish an internal review process to ensure that the working papers and the web site do not contain policy recommendations, and shall report annually to the Board on this process and any concerns raised in connection with it
- 8. Unless otherwise determined by the Board or exempted by the terms of paragraphs 6 and 7, a copy of this resolution shall be printed in each NBER publication as described in paragraph 2 above.