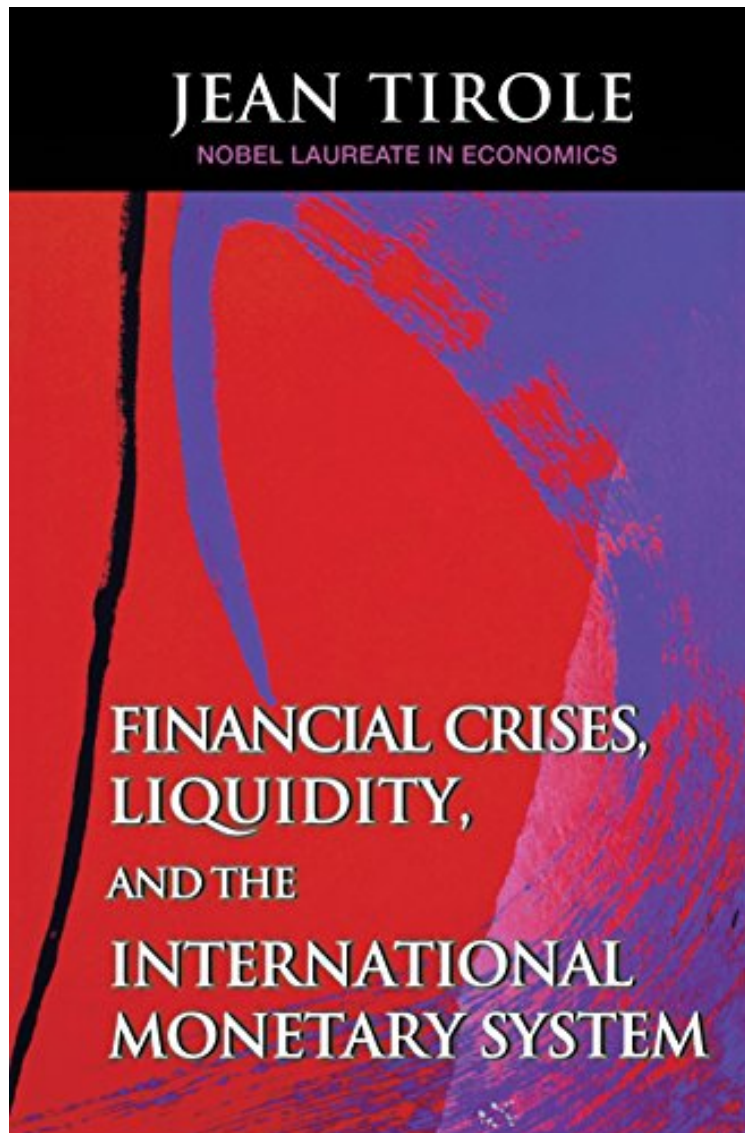


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Financial Crises, Liquidity, and the International Monetary System

Jean Tirole

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Jean Tirole : Financial Crises, Liquidity, and the International Monetary System before purchasing it in order to gauge whether or not it would be worth my time, and all praised Financial Crises, Liquidity, and the International Monetary System:

11 of 12 people found the following review helpful. An original and groundbreaking approach to financial crises By Jorge Fernandez Baca While most economists are still puzzled by the most recent foreign exchange and banking crises - such as the ones that took place last year in Argentina and Uruguay - and some of them (like Stiglitz) are proposing reckless and ineffective solutions, such as abolishing the IMF and most of the existing international agencies, Jean Tirole presents a more pensive and fruitful explanation of why these crises occur, and sheds new light

towards a much more effective solution. His approach is based on a new field of agency theory called Corporate Finance, which deals with the set of institutions that make it credible for the suppliers of funds to recover their investments in a specific firm. Tirole applies the basic principles of the prudential regulation of banks, that he worked before in collaboration with Mathias Dewatripont (MIT Press, 1994, ISBN: 0262041464), and which contains much of what we have learned through the twentieth century about financial crises. According to this approach, both the international financial and monetary systems would work much better if we had international risk classifying agencies on the one hand, providing information to investors about the liquidity and solvency of debtor countries, and a lender of last resort on the other. The trouble with the IMF is that it tries to perform both functions. However, what makes external borrowing more complicated than a typical financial arrangement is the presence of a third player, that is the borrower's government which has both the incentives and the means to affect the foreign investor's return by manipulating the exchange rate or the capital mobility. Because the investors' return is affected by the behaviour of two agents, the borrower himself and its government, Tirole calls this a dual agency problem. Tirole proposes an institutional reform in which the IMF should redefine its original mission, by concentrating in the role of facilitating the country's favourable access to foreign borrowing. This role underlies the (controversial) task of pre-qualification and conditionality. The IMF should also redefine its internal structure if it wants to perform well this new role. Its Board of Governors is too big and too heterogeneous to allow rapid and efficient decisions. In summary, this book presents an original and groundbreaking approach to financial crises which, as we expected from the beginning, arises more questions than answers. However, we know that the only way to find the appropriate solution to a problem is by formulating the right questions, and this is exactly what Tirole does. I am convinced that if the international agencies follow this approach they will soon find the right way to prevent or to lessen international financial crises, in the same way as central banks and financial regulatory agencies did with domestic banking crises during the last century.

1 of 3 people found the following review helpful. Short, posits an interesting framework for economic discussion
By 1000Books This was assigned for my International Monetary Policy Class. It is an incredibly short read. The framework that is presented in the piece is a good way to consider financial crisis. Tirole discusses the difference between a Crisis of Fundamentals versus a Crisis of Confidence and discuss how you address one versus the others. This is often confused in discussing crisis as well as implementing economic policy.

14 of 17 people found the following review helpful. Clear, concise, visionary
By A Customer Tirole has written an invaluable book that sheds light to a complex and extremely actual topic. By showing once again his seriousness as an economist (as opposed to others; i.e. Stiglitz), he goes back to first principles to understand the source of problems in international contracts. The application of modern corporate finance to international finance is extraordinary. Even the first chapters should be obligatory reading to any student of international macro (even in the first macro course). The first one gives a concise history of modern currency crisis -the so called first twenty-first century crisis- while the second one masterfully summarizes the economists views on the subject. Good economics, great topic, amazing timing.

Once upon a time, economists saw capital account liberalization--the free and unrestricted flow of capital in and out of countries--as unambiguously good. Good for debtor states, good for the world economy. No longer. Spectacular banking and currency crises in recent decades have shattered the consensus. In this remarkably clear and pithy volume, one of Europe's leading economists examines these crises, the reforms being undertaken to prevent them, and how global financial institutions might be restructured to this end. Jean Tirole first analyzes the current views on the crises and on the reform of the international financial architecture. Reform proposals often treat the symptoms rather than the fundamentals, he argues, and sometimes fail to reconcile the objectives of setting effective financing conditions while ensuring that a country "owns" its reform program. A proper identification of market failures is essential to reformulating the mission of an institution such as the IMF, he emphasizes. Next he adapts the basic principles of corporate governance, liquidity provision, and risk management of corporations to the particulars of country borrowing. Building on a "dual- and common-agency perspective," he revisits commonly advocated policies and considers how multilateral organizations can help debtor countries reap enhanced benefits while liberalizing their capital accounts. Based on the Paolo Baffi Lecture the author delivered at the Bank of Italy, this refreshingly accessible book is teeming with rich insights that researchers, policymakers, and students at all levels will find indispensable.

Jean Tirole, Winner of the 2014 Nobel Prize in Economics "An insightful contribution to the expanding economics research that reexamines the role of the International Monetary Fund in emerging markets and financial crises."--Choice
From the Inside Flap "In this remarkably ambitious and insightful book, Jean Tirole tackles the core issues in the economics of international lending with his usual superb clarity of thought. This book is essential reading to anyone interested in understanding the economics behind the recent drive to improve the international financial architecture."--Ken Rogoff, Chief Economist and Director of Research, International Monetary Fund "Jean Tirole is living proof of the value of good economic thinking. He shines new light on, and dissipates heat from, every issue he touches. In this book he offers us an amazing combination of detailed facts and rigorous theory about international

financial crises. His perspective of dual and common agencies enriches our understanding of the roles and shortcomings of international economic institutions, and points the way to reform. All the supposed experts who engage in controversies on these matters should learn from this book."--Avinash Dixit, Princeton University "This book presents one of the first comprehensive attempts to bring rigorous theoretical foundations into the debate on the international financial architecture. The analysis is simple, elegant, and yields insights that are often unconventional and always thought-provoking. This is an indispensable reference for all economists interested in the current debates on the international financial architecture."--Olivier Jeanne, International Monetary Fund "Most proposals for reforming the international financial system derive from ad hoc explanations for recent crises. Jean Tirole goes back to first principles. He asks how relations between lenders and borrowers differ in the international context from those in the domestic context. You may not agree with all of his conclusions but will have to rethink your own views after you have read it."--Peter B. Kenen, Princeton University "Jean Tirole uses the tools of corporate finance to analyse some key aspects of international finance. As we expect from him, we get deep and fruitful insights into issues such as borrower and lender behavior, the appropriate role of the IMF, and private sector involvement in orderly workouts. This is essential reading for all those concerned with the 'international financial architecture.'"--Richard Portes, London Business School

From the Back Cover "In this remarkably ambitious and insightful book, Jean Tirole tackles the core issues in the economics of international lending with his usual superb clarity of thought. This book is essential reading to anyone interested in understanding the economics behind the recent drive to improve the international financial architecture."--Ken Rogoff, Chief Economist and Director of Research, International Monetary Fund "Jean Tirole is living proof of the value of good economic thinking. He shines new light on, and dissipates heat from, every issue he touches. In this book he offers us an amazing combination of detailed facts and rigorous theory about international financial crises. His perspective of dual and common agencies enriches our understanding of the roles and shortcomings of international economic institutions, and points the way to reform. All the supposed experts who engage in controversies on these matters should learn from this book."--Avinash Dixit, Princeton University "This book presents one of the first comprehensive attempts to bring rigorous theoretical foundations into the debate on the international financial architecture. The analysis is simple, elegant, and yields insights that are often unconventional and always thought-provoking. This is an indispensable reference for all economists interested in the current debates on the international financial architecture."--Olivier Jeanne, International Monetary Fund "Most proposals for reforming the international financial system derive from ad hoc explanations for recent crises. Jean Tirole goes back to first principles. He asks how relations between lenders and borrowers differ in the international context from those in the domestic context. You may not agree with all of his conclusions but will have to rethink your own views after you have read it."--Peter B. Kenen, Princeton University "Jean Tirole uses the tools of corporate finance to analyse some key aspects of international finance. As we expect from him, we get deep and fruitful insights into issues such as borrower and lender behavior, the appropriate role of the IMF, and private sector involvement in orderly workouts. This is essential reading for all those concerned with the 'international financial architecture.'"--Richard Portes, London Business School