

Preface

Financial markets have become increasingly globalized in recent years. Theory suggests that this may either increase or decrease risk to national financial markets. It may decrease national risk exposure — increase financial stability — through diversifying risk across a greater number of countries. It may increase national risk exposure — decrease financial stability — through binding the national markets close together so that problems in one or a group of countries are rapidly transmitted to a large number of other countries. The papers published in this volume explore this issue. They were presented at a two-day conference at the Federal Reserve Bank of Chicago on September 27–28, 2007, co-sponsored with the International Monetary Fund. The conference was the Tenth Annual International Banking and Finance Conference sponsored by the Federal Reserve Bank of Chicago on important current issues confronting the international financial system.

Most of the papers were prepared after the initial outbreak of the “sub-prime mortgage” turmoil that swept through international financial markets after the summer of 2007. They discuss the relative strengths of the risk diversification and risk transmission processes; examine the empirical evidence to date; consider the relative roles of banks, nonbank financial institutions and capital markets in both risk diversification and risk transmission; evaluate the current status of crisis resolution in a global context; and speculate as to where to go from here in terms of understanding, resolution, prevention, and public policy. In addition to the papers presented at the regular conference panels, the book includes special keynote addresses.

The conference speakers and the conference audience represented more than 30 countries and international organizations, making the conference international in views presented as well as in topic matter. The group also represented a large number of different and diverse affiliations from both the public and private sectors, including academics, financial policy-makers, bank regulators, and bank and finance practitioners.

Publication of the papers in this volume is intended to share the ideas and analyses that were presented at the conference with a wider and more diverse audience in order to enhance our understanding of risk within the framework of global financial markets.

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