This book presents the Clarendon Lectures in Finance by one of the leading exponents of financial booms and crises. Hyun Song Shin’s work has shed light on the recent global financial crisis and he has been a central figure in the policy debates. The paradox of the global financial crisis is that it erupted in an era when risk management was at the core of the most sophisticated financial institutions. This book explains why. The severity of the crisis was caused by financial development that put marketable assets at the heart of the financial system, and the increased sophistication of financial institutions that held and traded the assets. Step by step, the lectures build an analytical framework that take the reader through the economics behind the fluctuations in the price of risk and the boom-bust dynamics that follow. It examines the role that securitisation and market-to-market accounting rules played in amplifying the crisis, and draws lessons for financial architecture, financial regulation, and monetary policy.

This book will appeal interest to students and academics across economics and finance, as well as policy makers, government officials, and bankers who want to delve beneath the surface to grasp the underlying dynamics of the boom-bust cycle in a modern financial system—a system where banking and capital market developments have become inseparable. 

Prof. Hyun Shin has centered his role as one of the foremost experts in finance and in the analysis of the recent financial crisis with this book. He explains with magisterial clarity the weaknesses in the system that led to the credit boom and subsequent bust. This will be a must-read for all those who need to understand how and why the financial crisis occurred.”

To the General Reader, the world has looked for leading economists to offer a new and better understanding of macroeconomic instability, as Keynes did in the Great Depression. In this book, Hyun Song Shin delivers what was needed. Step by step, he develops a new comprehensive understanding of how macroeconomic booms and busts can be defined and macroeconomic forces in the banking system. This book should be recognized as a major contribution to macroeconomic theory.

Roger Myners, Nobel Laureate in Economics 2008, Glen A. Lloyd Distinguished Senior Professor Emeritus of Economics, University of Chicago

This book is a "must-read" for students, scholars and policy-makers who want to decipher the subprime crisis. Hyun Shin has an extraordinary talent for designing simple models that explain complicated phenomena. The theme of endogenous risk in central his analysis of what went wrong in the financial system. If only regulators had understood early enough that financial risk are not given a priori but result from decentralized decisions of many actors that may face leverage constraints, I particularly enjoyed the chapter showing that Yalove at Risk regulations could be the vehicle for systemic fluctuations. Shin’s non-conventional assessment of the Northern Rock catastrophe is also enlightening.

Jean Charles Rochet, Professor of Economics, Toulouse School of Economics (TSE)

Hyun Song Shin is one of the leading scholars on financial instability in the world. His experience in this field is not confined to his academic work. He has also advised the President of Korea, the Bank of England and many other institutions on these issues. The recent crisis has underlined how important it is to understand the boom-bust cycle. During the boom asset prices rise, this offers financial institutions to borrow and expand their balance sheets and drive prices up more. Similarly, in the bust part of the cycle they reduce their debt, their balance sheets shrink, they sell assets and prices fall more. Hyun Song Shin has done the foundational theoretical and empirical research on this leveraging and deleveraging amplification mechanism. This book provides a very accessible summary of this work. It is essential reading for all academics and practitioners interested in financial crises.

Franklin Allen, Nippon Life Professor of Finance and Economics, The Wharton School of the University of Pennsylvania and author of Understanding Financial Crises (OUP)