

Contents

<i>List of Boxes</i>	<i>page viii</i>
<i>List of Figures</i>	<i>x</i>
<i>List of Tables</i>	<i>xiv</i>
<i>List of Countries</i>	<i>xvi</i>
<i>List of Abbreviations</i>	<i>xviii</i>
<i>Preface</i>	<i>xxiii</i>

Part I Setting the Stage 1

1	Functions of the Financial System	3
	1.1 Functions of a financial system	4
	1.2 Bank-based versus market-based financial systems	14
	1.3 Conclusions	28
2	European Financial Integration: Origins and History	33
	2.1 European integration: introduction	34
	2.2 European institutions and instruments	36
	2.3 Monetary integration	42
	2.4 Financial integration	48
	2.5 Conclusions	55
	Appendix: Examples of FSAP in action	56

Part II Financial Markets 61

3	European Financial Markets	63
	3.1 Financial markets: functions and structure	65
	3.2 Money market	71

	3.3 Bond markets	77
	3.4 Equity markets	91
	3.5 Derivatives	97
	3.6 Conclusions	103
4	The Economics of Financial Integration	107
	4.1 Financial integration: definition and drivers	108
	4.2 Measuring financial integration	112
	4.3 Integration of European financial markets	117
	4.4 The consequences of financial integration	125
	4.5 Conclusions	131
5	Financial Infrastructures	135
	5.1 Payment systems and post-trading services	136
	5.2 Economic features of payment and securities market infrastructures	147
	5.3 Integration of financial market infrastructures	151
	5.4 Conclusions	160
Part III Financial Institutions		165
6	The Role of Institutional Investors	167
	6.1 Different types of institutional investors	168
	6.2 The growth of institutional investors	180
	6.3 Portfolio theory and international diversification	187
	6.4 The home bias in European investment	191
	6.5 Conclusions	200
7	European Banks	204
	7.1 Theory of banking	205
	7.2 The use of risk-management models	212
	7.3 The European banking system	220
	7.4 Conclusions	232
8	The Financial System of the New Member States	236
	8.1 The financial system	237
	8.2 The banking sector	240
	8.3 What attracts foreign banks?	244
	8.4 Financial integration and convergence	250
	8.5 Conclusions	255

9	European Insurers and Financial Conglomerates	259
9.1	Theory of insurance	260
9.2	The use of risk-management models	273
9.3	The European insurance system	279
9.4	Financial conglomerates	288
9.5	Conclusions	293

Part IV Policies for the Financial Sector 297

10	Financial Regulation and Supervision	299
10.1	Rationale for government intervention	300
10.2	Prudential supervision	304
10.3	Conduct-of-business supervision	312
10.4	Supervisory structures	317
10.5	Challenges for financial supervision	321
10.6	Conclusions	329
11	Financial Stability	334
11.1	Financial stability and systemic risk	335
11.2	How can financial stability be maintained?	346
11.3	The current organisational structure	353
11.4	Challenges for maintaining financial stability	356
11.5	Conclusions	365
12	European Competition Policy	371
12.1	What is competition policy?	372
12.2	The economic rationale for competition policy	373
12.3	Pillars of EU competition policy	378
12.4	Assessment of dominant positions	383
12.5	Institutional structure	391
12.6	Conclusions	395

	<i>Index</i>	399
--	--------------	-----