

Contents

<i>List of Boxes</i>	page ix
<i>List of Figures</i>	xi
<i>List of Tables</i>	xv
<i>List of Countries</i>	xvii
<i>List of Abbreviations</i>	xix
<i>Preface</i>	xxv

Part I	Setting the Stage	1
1	Functions of the Financial System	3
	1.1 Functions of a financial system	5
	1.2 Bank-based versus market-based financial systems	15
	1.3 Recent changes	29
	1.4 Conclusions	33
2	Financial Crises	39
	2.1 Introduction	40
	2.2 Theory	45
	2.3 The credit crisis of 2007–2009	53
	2.4 The recent euro crisis	61
	2.5 Conclusions	68
3	European Financial Integration: Origins and History	71
	3.1 European integration: introduction	72
	3.2 European institutions and instruments	75
	3.3 Monetary integration	79
	3.4 Coordination of fiscal policy	85
	3.5 Financial integration	88
	3.6 Conclusions	95

4	Monetary Policy of the European Central Bank	98
	4.1 The European Central Bank	99
	4.2 Monetary policy strategy	106
	4.3 Monetary policy instruments	109
	4.4 Unconventional monetary policy during the crisis	116
	4.5 ECB communication policies	119
	4.6 Conclusions	124
Part II Financial Markets		127
5	European Financial Markets	129
	5.1 Financial markets: functions and structure	130
	5.2 Money market	136
	5.3 Bond markets	140
	5.4 Equity markets	151
	5.5 Derivatives	158
	5.6 Foreign exchange market	163
	5.7 Conclusions	165
6	The Economics of Financial Integration	169
	6.1 Financial integration: definition and drivers	170
	6.2 Measuring financial integration	174
	6.3 Integration of European financial markets	178
	6.4 The consequences of financial integration	185
	6.5 Conclusions	191
7	Financial Infrastructures	195
	7.1 Payment systems and post-trading services	196
	7.2 Economic features of payment and securities market infrastructures	207
	7.3 Integration of financial market infrastructures	211
	7.4 Conclusions	220
8	Financial Innovation	224
	8.1 Financial innovation: causes and consequences	225
	8.2 Pros and cons of financial innovation	231
	8.3 Risks of financial innovation: two case studies	235
	8.4 Credit rating agencies	240
	8.5 Conclusions	245

Part III	Financial Institutions	249
9	The Role of Institutional Investors	251
	9.1 Different types of institutional investors	252
	9.2 The growth of institutional investors	264
	9.3 Portfolio theory and international diversification	271
	9.4 The home bias in European investment	274
	9.5 Conclusions	284
10	European Banks	288
	10.1 Theory of banking	289
	10.2 The use of risk-management models	296
	10.3 The European banking system	303
	10.4 Conclusions	316
11	European Insurers and Financial Conglomerates	321
	11.1 Theory of insurance	322
	11.2 The use of risk-management models	335
	11.3 The European insurance system	341
	11.4 Financial conglomerates	352
	11.5 Conclusions	355
Part IV	Policies for the Financial Sector	359
12	Financial Regulation and Supervision	361
	12.1 Rationale for government intervention	362
	12.2 Microprudential supervision	365
	12.3 Conduct-of-business supervision	372
	12.4 Supervisory structures	377
	12.5 Challenges for financial supervision	381
	12.6 Conclusions	388
13	Financial Stability	392
	13.1 Financial stability and macroprudential supervision	393
	13.2 Macroprudential policy	397
	13.3 Monitoring and analysing systemic risk	400
	13.4 Macroprudential instruments and architecture	407

	13.5 Crisis management and resolution	414
	13.6 Challenges for maintaining financial stability	417
	13.7 Conclusions	423
14	European Competition Policy	427
	14.1 What is competition policy?	428
	14.2 The economic rationale for competition policy	429
	14.3 Pillars of EU competition policy	434
	14.4 Assessment of dominant positions	442
	14.5 Institutional structure	448
	14.6 Conclusions	451
	<i>Index</i>	456