

Index

- accountability, 10–12, 439–440
- accounting, 11–12, 222
 - full fair value, 545
- actuaries, 510–511
- agency problems, 324–330, 384–384, 387, 503–504
- amplification mechanisms, 38
- analysts, 210, 234, 510
- appraisers, 508–509
- arbitrage
 - and banks, 92–93
 - cost of, 234
 - dependence on, 211
 - and dollars/T-bills, 182
 - in market efficiency, 232, 234
 - rational, 211
 - and 3Com/Palm, 177–178
- Argentina, 4, 153–154, 380n7
- Asia
 - asset price cycles, 104–109
 - bank regulation, 520
 - banks, 112, 115, 123
 - and capital, 112, 504, 505–506
 - credit in, 109, 115, 121–122
 - crises transmission, 313
 - currency linkages, 375
 - equity prices, 104, 129
 - financial imbalances, 257
 - financial professionals, 510
 - monetary policy, 124
 - 1997 crisis, 368, 505
 - property price decline, 115–120
 - public policy, 112, 123–124
 - real estate, 120–122, 241
 - regulation in, 112, 123
 - and risk-taking, 112, 123
 - and securitization, 512
 - See also specific countries*
- asset price gap, 251–255
- asset returns, 142
- audit systems, 11
- Australia
 - banks, 258, 482–491, 496–497, 525
 - international credit, 519–520
 - loan loss provisioning, 496–497
 - real estate, 519, 524–525
- autoregressive distributed lag (ARDL), 133–134
- availability heuristics, 222, 223
- balance sheet effects, 153–154
- balance sheets
 - of banks, 342–346, 550
 - and equity market, 54–55, 168–169, 431
 - tangible asset value, 420
- banks
 - absorptive capacity, 346–353
 - Asian, 112, 115, 123
 - Australian, 258, 482–491, 496–497, 525
 - balance sheets, 342–346, 550
 - capital, 227, 351, 493–494, 505
 - competition between, 223, 224, 329–330
 - and deposit insurance, 492
 - deposit shocks, 346–353

- banks (*continued*)
 - and disasters, 221–223, 241
 - equity holdings, 532
 - and exchange rates, 471
 - expected payoff, 329
 - foreign liabilities, 519
 - foreign-owned
 - benefits, 338, 341–342, 349, 356
 - risks, 520
 - international trades, 351–353
 - Latin American, 241, 520
 - and liquidity, 224
 - versus* market-based finance, 240–241
 - merchant, 525
 - and public policy, 224–226
 - and real estate, 220–226, 240–241, 551
 - risk management, 21, 123, 223–227
 - role of, 339, 342–346
 - safety net effect, 224–226
 - stock-holding, 532
 - stock prices of, 341
 - See also* central banks; credit
- banking regulation
 - and asymmetric information, 492
 - and deposit fluctuations, 349
 - and financial crises, 338
 - and government corruption, 341
 - and nonbank credit, 491, 520
 - short- and long-term effects, 353–356
 - and short-term lending, 339–340
- bank runs, 224–225, 492
- bankruptcy, 504–505, 512
- behavioral finance, 207–209, 212–213, 234–236
- benchmarks, 19, 189
- beta, 198, 200–201, 206
 - See also* volatility
- bond markets, 189, 449, 512
- book value, 193, 305
- brand equity, 421
- Brazil, 155–156, 380n7, 520, 521
- bubbles
 - amplification mechanisms, 38
 - burst period, 81–82, 89–91
 - and crashes, 139–141, 294
 - definitions, 23, 35, 165
 - determinants, 141
 - empirical dimensions, 291–296
 - identifying, 4–7, 12, 42–43, 165–168, 261–262
 - long-term impact, 147–149
 - minimizing factors, 164
 - nonrational, 26–28
 - precipitating factors, 38–39
 - prevention, 164
 - puncturing, 155–156, 164, 169
 - rational, 24–26, 165, 198–199, 293
 - testing for, 131–137
- Buffet, Warren, 213n7
- building costs, 285–286
- Bulgaria, 155
- Bundesbank, 76
- Bush, George W., 9–10
- business cycles
 - and capital adequacy, 494
 - and credit, 538–540
 - and equity prices, 471–474
 - and exchange rates, 470–471
 - and fiscal policy, 467–468
 - and housing, 472–474, 518
 - and inflation, 469, 517
 - post World War II, 467–469
 - and real estate, 472–474
 - and regulation, 474–478, 518–521
 - and risk, 475, 476–478
 - supply-driven, 469–471, 517
 - and VaR, 471, 518, 551–552
- buyout investors, 397
- capital
 - and Asia, 112, 504, 505–506
 - of banks, 227, 351, 493–494, 505
 - cost of, 146–147
 - and emerging markets, 520
 - equity market capitalization, 27
 - ex ante* real rates, 305
 - external acquisition, 431
 - global allocation, 340
 - information technology, 235
 - intangible, 272, 301–305
 - versus* loan loss provisioning, 525–526, 527n3
 - market value, 302–303
 - net rental rates, 305
 - and 1929 crash, 27
 - and public policies, 112
 - requirements for, 493–494
 - short-term, 520
 - tangible, 272
 - Tobin's *q*, 16, 146–147
- capital accounts, 124
- capital adequacy, 493–494
- capital flows, 141–142, 154, 471, 519–520
- capital gains, 302
- capital markets, 506, 509
- cash flow, discounting, 504
- central banks
 - and asset prices, 49, 459–460
 - and booms, 17
 - and cost of life, 279
 - and credit availability, 329–332, 385–386

- credit tightening, 49–50, 255–256, 430
- crises prevention, 255–256
- and employment, 461
- and equity market, 54, 556–557
- and financial imbalances, 261–263
- and financial (in)stability, 74–75, 492, 549–550
- and inflation, 89, 439, 446, 448–449 (*see also* inflation-targeting)
- Japanese, 84, 89, 164, 451–453
- and loan provisioning, 543–546
- and misalignments, 439
- and monetary policy, 16–17, 49–50
- and output gap, 433, 436–437, 446–447
- and price stability, 547–548
- real objectives, 461
- and risk-taking, 17
- and segmented markets, 93
- sterilized interventions, 450–451
- and stock market, 74–76
- supervisory role, 550–551
- Swiss, 433
- and tax-deductibility, 520–521
- See also* Federal Reserve; interest rates; monetary policy
- Chile, 153–154, 520
- China, 189, 512
- civil law countries, 510
- closed-economy model, 431–432, 436–437
- collateral
 - loan-to-value ratios, 477
 - real estate as, 155, 219, 221, 325, 506, 519
 - housing, 473
 - stocks as, 155, 325, 472–473
- Colombia, 153–154
- commodities, 188
- common law countries, 510
- communications costs, 399
- competition
 - and credit cycles, 541
 - and exchange rates, 450
 - and intangible assets, 421
 - interbank, 223, 224, 329–330, 539
 - and Internet firms, 394, 397, 399
- conflicting signals, 441
- conflict of interest, 11–12
- construction costs, 285–286
- Consumer Price Index (CPI)
 - and housing prices, 109
 - and inflation, 278, 284
 - and interest rates, 284
 - in Japan, 86, 451
 - stability of, 548–552
- consumption
 - and equity prices, 15, 146–151, 553, 558
 - future, 278, 279
 - growth of, 559n3
 - and housing, 473, 539
 - and inflation, 277–279, 299–301
 - in Latin America, 146–151
- consumption tax, 86
- contracts, enforcement of, 96n1
- contrarians, 214n8
- convenience yield
 - defined, 175
 - description, 187–191, 233–234
 - limitations, 239–240
 - and price distortions, 233–234
 - and tech stocks, 175–178, 187–191, 193–197
- corporations
 - audit systems, 11
 - officer accountability, 10–12
 - restructuring, 504–505, 513–514
 - value assessment, 272
- corruption, 341
- cost of life
 - and asset prices, 278–280
 - change estimates, 280–281
 - versus* cost of living, 279, 281–284, 286–287, 288n3, 291–292
 - dynamic factor index, 281–287
 - and inflation, 299–301
 - and interest rates, 286–288, 288n3
- cost of living index
 - versus* cost of life, 279, 281–284, 286–287, 288n3, 291–292
- crash identification, 55–56
- crash minimization, 168–169
- Crash of 1929
 - as benchmark, 55
 - and bubbles, 46–47, 294
 - and capitalization rate, 27
 - causes, 273–274
 - Federal Reserve role, 61–63, 273–274, 294
 - and volume, 192
- credibility, 260, 266n20, 439–440, 453–454
- credit
 - aggregate, 329–332, 346, 385–386
 - in Asia, 109, 115, 121–122
 - and asset prices, 19, 249–256
 - availability of, 228n11, 329–332, 385–386
 - bank-based, 91–93, 96
 - and bubbles, 141
 - and business cycles, 538–540
 - constraints on, 469
 - cyclical, 538–541
 - domestic growth, 141–144
 - and equity prices, 147, 228n11
 - and euro, 407

- credit (*continued*)
- expansion, 249–256, 266n12, 525, 538–540
 - against future income growth, 449–450
 - and housing, 151–154
 - inter-firm, 520
 - international markets, 519–520
 - in Japan, 91–93, 96
 - and land prices, 219
 - in Latin America, 141–142, 151–156
 - loan-to-value ratio, 223–224, 477, 550
 - loss provisioning, 471, 495–497, 502, 520–521, 526, 540–546
 - and mimetic behavior, 20
 - and monetary policy, 16, 18
 - versus* own money, 326, 384
 - public *versus* private sectors, 469
 - and real estate, 101–104, 121–122, 155, 220–221, 551 (*see also* agency problems)
 - regulation of, 155, 491–498, 520
 - REIT-based, 123
 - secondary markets, 519, 531, 5511–513
 - short-term, 339–340
 - and stock market crashes, 54–55, 64, 66, 69, 72
 - stress testing, 497–498
- credit gaps, 250–255
- currency
- Argentine peso, 4
 - emerging markets, 368–370, 373–379
 - euro, 406–407, 414–415
 - extreme movements, 366–370
 - of industrialized countries, 370–373, 376–378
 - in Latin America, 141, 155–156, 375
 - linkage measurement, 364–366
 - speculation, 363
- current account deficits, 149, 469
- debt/deflation cycle, 471
- debt flows, 124
- decision-making, 206–209, 212, 222
- deflation, 284–287, 471
- demand
- and asset value decline, 449
 - and business cycles, 468–469
 - for commercial real estate, 219–220
 - and equities, 177, 200
 - and Federal Reserve, 453–454
 - and herding behavior, 212
 - and interest rates, 447, 469
 - in Japan, 531–532
 - and short selling, 200
- deposit insurance, 492
- depreciation, 301–304, 421
- developing countries
- bond markets, 512
 - crisis transmission, 310–313, 316–319
 - debt crisis, 470
 - financial sector, 506
 - housing in, 155
 - recovery in, 506
 - See also* emerging markets
- direct pressure, 283–274
- disaster myopia, 221–224, 241
- diversity, 557, 4008–409
- dividend discount models, 206
- dividends
- and earnings, 303–304
 - and equity prices, 132–135, 231–232, 554
 - expected growth, 554
 - and fundamental value, 272–272
 - timing issues, 157n18
- dollar volume, 191–192
- downsizing, 505
- dynamic factor index, 281–287
- earnings, 210, 235
- eBay, 394
- economic indicators
- equity prices as, 553
 - and European monetary policy, 18
 - exchange rates, 462, 519
 - of financial crises, 250–256, 295, 550
 - for future inflation, 437
 - investor behavior as, 553
 - See also* forecasting
- economy of scale, 555
- efficient markets model, 232
- emerging markets
- currency, 368–370, 373–379
 - real estate, 220
 - risk management, 379, 511
 - short-term capital, 520
 - volatility, 340
 - See also* developing countries
- Employee Retirement Income Security Act (ERISA), 9–10
- employment, 399, 453–454, 461, 467
- downsizing, 505
- Enron, 72
- equipment, 419–420, 419–421
- equity markets
- Asian, 104
 - versus* bank financing, 240–241
 - capitalization, 27
 - in China, 189
 - European, 410–415
 - float, 182
 - and forecasting, 205
 - fundamental values, 271–273

- home bias, 404–414
- individual investors, 555–556
- and inflation, 266n19, 430
- and information, 8, 190
- institutional factors, 211
- and interest rates, 72–73
- international linkages, 324–325, 332–334, 386–387
- interwar, 284
- in Japan, 451–452
- in Latin America, 141, 142–144
- and monetary policy, 72–76
- in 1990s, 4–7, 15, 27–28, 44–45
- portfolio allocation, 404–407
- psychological factors, 17, 210–212
- and sentiment, 398, 400
- share supply, 195–197
- trading frequency, 190, 192
- valuation, 274, 293–294, 504
 - overvaluation, 190, 236n3, 271–274
 - undervaluation, 274
- winning strategies, 504
- See also* stock market crashes
- equity prices
 - of banks, 341
 - and business cycles, 471–474
 - and consumption, 15, 146–151, 553, 558
 - and credit supply, 147, 228n11
 - and demand, 177, 200
 - and dividends, 132–135, 231–232, 554
 - as economic indicators, 553
 - and firm growth, 306
 - fundamental value, 134–135, 431
 - Gordon model, 231–232
 - and growth rates, 232
 - index inclusion, 200
 - and inflation, 266n19, 449
 - information in, 462–463
 - and interest rates, 30
 - in Japan, 451–453, 532
 - in Latin America, 128–129, 146–151
 - and monetary policy, 454, 455
 - price-to-max value ratio, 139–140
 - and productivity, 559n1
 - psychological factors, 210–212
 - and required return, 189
 - versus* return on equity, 504
 - risk aversion coefficient, 559n2
 - and share supply, 195–197, 200
 - in United States, 4–7, 15, 27, 472–474
 - variability perception, 209
 - volatility, 557–558
 - and volume, 191–194
- euro, 406–407, 414–415
- Europe
 - and crisis transmission, 318, 319
 - equity markets, 410–415
 - investor behavior, 404–405
 - market consolidation, 415
 - monetary policy, 18
 - See also specific countries*
- European Central Bank, 18
- European Union, 319
- exchange market pressure, 310–315
- exchange rates
 - in Asia, 115, 120, 375
 - and banks, 471
 - and business cycles, 470–471
 - currency movements, 366–370
 - and domestic policy, 450
 - emerging markets, 368–370, 373–379
 - euro/dollar, 406–407, 414–415
 - fixed, 317–319
 - free floating, 433
 - and globalization, 310–315
 - and industrialized countries, 370–373, 376–378
 - and inflation, 435
 - and interest rates, 512, 518
 - linkage measurement, 364–366
 - and monetary policy, 42, 432–433, 435–436, 450–451, 452–453
 - and portfolio allocation, 406–407
 - as predictors, 462
 - and rational bubbles, 25
 - and risk-shifting, 325
 - and shock transmission, 361–362
 - in small open economies, 471, 518
 - stability, 258, 442n18
 - yen/dollar, 452
- expectations
 - of credit, 228n11
 - and financial imbalances, 259–260
 - of future inflation, 461
 - and interest rates, 16
 - of Internet stocks, 393–395
 - in Japan, 95–96, 240
 - modeling, 28–29
 - and NASDAQ bubble, 231–233
 - of profit, 16
 - and psychology, 205 (*see also* psychology)
 - rational, 23, 24, 197–198
- explanations, 49–50, 197–200
- external finance premium, 96n1
- extreme value analysis, 363
- Fama-MacBeth statistics, 193–194
- Federal Reserve
 - and equity markets, 274

- Federal Reserve (*continued*)
 and financial instability, 168
 and inflation, 65, 69
 in late 1990s, 453–454
 and Latin America, 141
 and liquidity, 74–75, 164
 and LTCM crisis, 170
 and NASDAQ bubble, 170
 1994 action, 446–447
 pre-emptive action, 446–447
 and September 11, 74–75
 and stock market crashes, 63–72
 crash of 1929, 61–63, 273–274, 294
 See also monetary policy
- fiber optics, 420
- finance companies, 525
- financial analysts, 210, 234, 510
- financial crises
 Asian, 368, 505
 and asset prices, 253
 and emerging countries, 310–313
 enhancement factors, 18–20
 indicators, 250–256, 295, 550
 international transmission, 312–321, 338, 441
 regional, 316–320, 363
 source, 432–433
 stages, 211–212
 timing, 251
- financial diversity, 408–409, 557
- financial imbalances, 257–263
- financial (in)stability
 and asset prices, 294–296
 and central banks, 549–550
 determining factors, 249–256
 and globalization, 309–321
 and inflation, 256–257
 international, 309–320
 in Japan, 89, 91–93, 549
 and monetary policy, 256–263
 and policy intervention, 168
 and stock market crashes, 72–74
 systemic, 491–492
 systemic nature, 491–492
 See also business cycles; medium-run macroeconomic stability
- financial sector
 critical products, 511–514, 515, 531
 in developing countries, 506
 expertise, 505–511, 514–515, 521, 531–533
 foreign presence, 515
- fiscal policy, 467–468
- float, 182
- forecasting
 and behavioral finance, 209–210
 and equity markets, 205
 and equity prices, 553, 559n1
 of inflation, 437
 and pre-emptive action, 556
 productivity, 29, 559n1
 See also economic indicators
- foreign entry, 515
- foreign liabilities, 519
- foreign ownership, 338, 341–342, 349, 356
- France, 15
- fraud, 506
- frequency
 and profitability, 222–223
 and real estate, 240
 of shocks, 221–223
 of stock trades, 239
 See also timing
- frictionless rational pricing, 197–198
- full fair value accounting (FFVA), 545
- fundamental value
 assessment of, 261–262, 272–273
 deviation from, 16
 and equity prices, 134–135, 431
 and investment money source, 326, 384
 permanent change, 166
 and productivity, 170
 of spin-offs, 176–178
- General Electric (GE), 399
- General Motors (GM), 177
- Germany, 319
- globalization
 and banks, 351–353
 crisis incidence, 315–321
 and equity markets, 324–325, 332–334, 386–387
 exchange markets, 310–315
 international credit, 519–520
 pre- and post-World War I, 309–321
 and small economies, 441
 and VaR, 317–319
- gold standard, 310, 317, 319
- Gordon model, 189, 197, 232, 554
- Granger causality, 157n18, 437
- Great Depression, 61–64
- Greenspan, Alan
 on Asian crisis, 505–506
 on asset prices, 46
 impact of, 213n4
 irrational exuberance, 30
- gross domestic product (GDP), 89, 97n6
- hedge funds, 19, 120
- herding
 by analysts, 210

- and asset prices, 19–20, 212
- and banks, 226, 340
- and contrarians, 214n8
- and liquidity, 212
- and VaR, 21
- heuristics, 209
- home bias, 404–414
- Hong Kong, 102, 120, 240, 551
- housing
 - and business cycles, 241, 472–474, 518
 - and consumer price index, 109
 - and consumption, 539
 - in cost of life, 282, 285
 - and credit, 151–154
 - mortgages, 512–513, 519
 - in developing countries, 155
 - and inflation, 109
 - as investment, 241
 - in Latin America, 151–154
 - and real output, 473–474
 - secondary markets, 155
 - in United States, 472
- H.R. 2269, 10
- H.R. 3763, 10
- human capital, 505–511, 514–515, 521, 531–533
- hyperinflation, 188
- income taxes, 301–302
- indexes
 - cost of living, 279, 281–284, 286–287, 288n3, 291–292
 - and Japan, 455
 - and mutual funds, 19–20
 - Standard and Poor's, 200
- indicators. *See* economic indicators
- Indonesia, 120
- industrialized countries, 370–373, 376–378
- inflation
 - in Asia, 121
 - and asset price information, 30–31, 97n6
 - and bond markets, 449
 - and business cycles, 469, 517
 - and cash, 188
 - and central banks, 89, 439, 448–449
 - and commercial real estate, 524–525
 - and Consumer Price Index, 278, 284, 292
 - and consumption, 277–279, 299–301
 - and cost of life, 299–301
 - and credit, 121, 257–260
 - and crises, 257–260
 - and equities, 266n19, 430
 - and exchange rates, 435
 - expectations of, 461
 - financial imbalances, 257–260
 - and financial stability, 256–257
 - forecasting, 437
 - future, 437
 - and housing prices, 109
 - hyperinflation, 188
 - and interest rates, 121, 286–288, 446
 - and long bond rates, 449
 - low levels, 257–263, 523–524
 - and monetary policy, 260
 - and output gap, 89
 - and productivity, 259
 - views of, 49–50
- inflation-targeting
 - and consumption, 279
 - and financial imbalances, 260–261
 - and macroeconomic stability, 95, 461–462
 - rationale for, 460–461
 - short- *versus* long-term, 263
 - and Taylor rule, 427–429
- information
 - about monetary tightening, 49–50
 - and agency problems, 9
 - in asset prices, 30–31, 97n6, 459–463
 - and asset pricing, 8
 - asymmetric, 224, 491–492
 - complexity of, 491
 - and credit gaps, 251, 266n14
 - disclosure of, 10–12
 - on earnings, 235
 - and equities, 8, 190, 462–463
 - and external finance premium, 96n1
 - and herding, 20–21
 - and Internet, 392
 - and NASDAQ prices, 235
 - and pension reform, 9–10
 - and public policy, 7–9
 - in real estate prices, 462–463
 - regulation of, 491–492
 - and stock market crashes, 54
 - transparency, 20–21, 212, 511, 515
 - uncertain, 29
- information technology, 235–236
- infrastructure
 - financial, 532
 - organizational, 421
- initial public offerings (IPOs)
 - lock-ups, 195, 395
 - 3Com/Palm, 176–188
 - underperformance of, 200
 - and venture capitalists, 396–397
- innovation, 305, 555
- insolvency experts, 508
- institutional investors, 8–9, 211, 326, 384

- institutional rationality, 214n10
 insurance, 492, 506, 510–511
 intangible assets, 301–305, 419–422
 intellectual capital, 421
 interest rates
 after-tax real, 273
 in Asia, 115, 120, 121
 and asset prices, 431, 446–455
 and CPI, 284, 548–549
 and credit availability, 329–330
 and crisis transmission, 317–319
 and demand, 447, 469
 and equities, 30, 72–73
 and exchange rates, 512, 518
 and expectations, 16
 and inflation, 121, 286–288, 288n3, 446
 in Japan, 93–95, 455, 549
 lowering, during bubble, 170
 and money supply, 182
 1994 tightening, 446–447
 parity, 435–436
 and price stability, 548–549
 and productivity, 267n25, 453
 short term, 317–319, 431–432, 446–447, 450–451, 453–454
 spread, 56
 stable *versus* sluggish, 442n18
 and supply, 447
 and timing, 549
 See also monetary policy
 intermediation, 349, 510–511, 559n7
 Internet, 391–392, 394–395, 398–399
 Internet stocks
 and monetary policy, 43–44, 50
 and profitability, 27, 391–392, 398, 399
 and short sales, 194, 395
 valuations, 392–395, 419–422
 and venture capitalists, 395–398
 See also tech stocks
 intrinsic bubble model, 137–139
 inventions, 555
 investment
 and equity prices, 146–151, 431
 and financial crises, 251–255
 in Latin America, 146–151
 and overcapacity, 430
 overinvestment, 149
 with own money, 326, 384
 investment decisions, 206–207
 investment gaps, 251–255
 investment horizons, 19, 21
 investors
 buyout, 397
 European, 404–405, 410–414
 individual, 555
 institutional, 8–9, 211, 326, 384
 U.S., 395–398, 404–410
 venture capital, 395–398
 irrationality, 30, 197, 199
 Japan
 asset price booms, 32n2, 82–84, 89–91, 325, 523–524
 rational, 26–27
 banks, 91–93, 96, 532, 549
 bond trading, 189
 central bank, 89
 Consumer Price Index, 86, 451
 credit, 91–93, 96
 danger signals, 550
 demand, 531–532
 equities, 451–453, 532
 expectations, 95–96, 240
 financial imbalances, 257
 financial stability, 89, 91–93, 549
 interest rates, 93–95, 455, 549
 liquidity, 93, 97n12, 164
 loan-to-value ratio, 550, 551
 monetary policy, 47–49, 84, 89–93, 170, 451–453
 output gap, 86–88
 recovery, 505, 530
 risk-shifting, 385
 stock-holding banks, 532
 taxes, 86, 551
 and United States, 318
 valuation expertise, 505
 jobs. *See* employment; labor
 Kalman filter, 281
 See also dynamic factor index
 Keynes, John Maynard, 206
 Korea, 120, 512–514, 525
 labor, 259, 449, 453–454
 land, 218–220, 227n2, 455, 551
 Latin America
 and Australia, 519–520
 banking crises, 241
 bank regulation, 520
 bubbles, 134–141
 determinants of, 141–144
 testing for, 131–134
 consumption, 146–151
 crashes, 139–141
 and crises transmission, 313
 currency, 4, 141, 155–156, 375
 equities, 128–129, 141, 142–144, 146–151

- financial professionals, 510–511
- housing, 151–154
- investment, 146–151
- public policy, 154–156
- real estate, 129, 139, 142–144, 154–156
- stabilization programs, 258
- U.S. impact, 141, 142–144
- See also specific countries*
- leveraging, 223, 226, 242
- liquidators, 508
- liquidity
 - and banks, 224
 - and European monetary policy, 18
 - and Federal Reserve, 74–75, 164
 - and herding, 212
 - and herding behavior, 212
 - in Japan, 93, 97n12, 164
 - and secondary market, 511
 - and stock market crashes, 64, 74
- loan-loss provisioning
 - description, 495–497
 - in Portugal, 520–521
 - in Spain, 502, 526, 540–546
- loan-to-value ratios, 223–224, 477, 550, 551
- log dividend-yield, 134
- Long-Term Capital Management (LTCM) crisis, 45, 170, 368

- M3, 18
- macroeconomic stability, 50, 95, 460–462
- macro markets, 155
- Malaysia, 120, 512–513
- market efficiency
 - definition, 232
 - and modern finance, 206–207
 - and NASDAQ bubble, 232–233
 - and public policy, 8, 9–12
 - semi-strong, 8
 - strong form, 8
 - and tech stocks, 206
- market value, 305
- mass media, 212
- medium-run macroeconomic stability, 460–461
- mental frames, 208
- merchant banks, 525
- México, 153–154, 325
- millennium, 45
- mimetic behavior. *See* herding
- misalignments, 439–441, 459–460, 476
 - and central banks, 429
- monetary policy
 - and Asia, 124 (*see also under* Japan)
 - and asset prices, 16–22, 41–49, 428–441, 462
 - and business cycles, 518–521
 - closed-economy model, 431–432, 436–437
 - credibility, 260, 266n20, 439–440, 453–454
 - and credit, 519–520, 539–540
 - and equities, 72–76, 454, 455
 - in Europe, 18
 - and exchange rates, 42, 432–433, 435–436, 450–453, 462
 - and financial stability, 256–263
 - and fluctuations *versus* bubbles, 295
 - Greenspan role, 213n4
 - international, 433, 441, 519–520
 - intervention rationale, 438–439
 - in Japan, 47–49, 84, 89–93, 170, 451–453
 - and macroeconomic stability, 50
 - and 1929 crash, 294
 - open economy model, 432–433, 435–436
 - pre-emptive, 446–447, 452, 455
 - and price stability, 17–18
 - versus* prudence, 481–492, 518–526
 - public explanations, 49–50
 - recession prevention, 31
 - and shock type, 432–433, 436–437
 - in small open economies, 432–433, 435–436
 - and stock market crashes, 73–76
 - and tech stocks, 454
 - tightening, 49–50, 255–256, 430, 446–447, 557
 - time horizon, 439–440
 - timing, 263, 295–296, 462–463
 - transmission channels, 16
 - See also* central banks; inflation-targeting; interest rates
- moral hazard. *See* risk-taking
- mortgage-backed securities, 242, 512–513, 519
- mutual funds, 8–9, 19–20

- NASDAQ bubble, 191–200
 - aftermath, 530
 - and expectations, 231–233
 - and Federal Reserve, 170
 - and information, 235
- Nelson, E., 432–433
- new economy
 - and business cycles, 475
 - characteristics, 419–421
 - and equity priceeas, 15
 - impact, 391–392, 398–399
 - intangible assets, 421–422
- New England, 506
- 1929. *See* Crash of 1929
- noise-to-signal ratio, 252–253, 265n11, 266n12
- nonrational bubbles, 26–28

- obsolescence, 419–421
- Olympic model, 206–207

- OPEC, 69
- open economies. *See* small open economies
- ordinary least squares (OLS), 193
- Organization for Economic Cooperation and Development (OECD), 166
- output gap
- and central banks, 433, 436–437, 446–447
 - estimation of, 440
 - euphoria effect, 96n3
 - and inflation, 89
 - in Japan, 86–88
- overcapacity, 430
- overconfidence, 190
- overinvestment, 149
- overvaluation, 144, 166–168
- of equities, 166–168, 190, 236n3, 271–274
 - Palm, 180
 - identification of, 549
 - of real estate, 144
- Pakistan, 368
- Palm, 175–188
- convenience yield, 175–178, 187–191, 233–234
 - options trading, 186, 194
 - price and volume, 180–181
 - share supply, 182–184
 - and short selling, 182–183
 - as spin-off, 176–178
 - 3Com linkage, 184–186
 - volatility, 179–180, 185
- pension funds, 275n3, 506
- pension reform, 9–10
- P/E ratios, 166, 169
- perpetual inventory method, 422n3
- personnel, 508–511
- petroleum, 69
- Philippines, 120, 368
- portfolio composition, 406–407, 492–493, 518, 543–544
- Portugal, 520–521
- precipitating factors, 38
- pre-emptive action
- and financial imbalances, 263
 - and forecasting, 556
 - and Japan, 455
 - monetary policy, 446–447, 452, 455
 - regulatory, 481–482, 533
- prevention, 31, 164
- price-earnings (P/E) ratios, 166, 169
- price manipulation, 11
- price stability, 17–19, 21, 548–549
- pricing
- rational, 197–198, 233–234
 - versus* value, 206
- process innovation, 305
- productivity
- change, permanence of, 25–26
 - economy of scale, 555
 - and equity prices, 559n1
 - forecasting, 29, 559n1
 - and fundamental value, 170
 - growth, impact of, 449–450, 453
 - and inflation, 259
 - and interest rates, 267n25, 453
 - and output gap, 440
 - and technology, 27, 391–392, 399–400
 - in U.S., 25–26, 170, 259, 407, 453
- profitability
- of Internet firms, 27, 391–392, 398, 399
 - and low-frequency events, 222–223
 - steady-state pre-tax, 272–273
 - and technology, 27, 391–392, 399
- profit expectations, 16
- profit squeeze, 449
- protection, 556–559
- provisioning. *See* loan loss provisioning
- psychology
- behavioral finance, 207–209, 212–213, 234–236
 - belief perseverance, 210–211, 214n10
 - decision-making, 206–209, 212, 222
 - disaster myopia, 221–224, 241
 - euphoria, 96n3
 - of financial behavior, 209–210
 - herding, 19–20, 210, 212, 214n8
 - impact of, 210–212
 - intuitive judgment, 212
 - Keynes view, 206
 - perverse incentives, 223–226
 - rational assumptions, 206–207, 213n4
 - rational *versus* behavioral, 234–236
 - See also* behavioral finance; herding
- public policy
- in Asia, 112, 123–124
 - and banks, 224–226
 - and behavioral finance, 235–236
 - bubble identification, 4–7, 12
 - bubble pricking, 169
 - under George W. Bush, 9–12
 - and exchange rates, 450
 - and financial instability, 168–169
 - implementation of, 168–169
 - information availability, 7–9
 - and investor psychology, 212
 - in Latin America, 154–156
 - and market efficiency, 8, 9–12
 - and real estate, 124, 154–156, 225–226, 228n5

- recession prevention, 31
 - and risk, 123
- quality, 419–420
 - flight to, 380n10
- rate of return, 178, 329–330, 407
- rating agencies, 340
- rational adjustments, 554
- rational arbitrage, 211
- rational bubbles, 24–26, 165, 198–199, 293
- rational expectations, 23, 24, 197–198
- rationality
 - assumptions of, 206–207, 213n4, 234–235
 - of society, 214n10
- rational paradigm, 206–207
- rational pricing, 197–198, 233–234
- real estate
 - appraisals, 506, 508–509
 - and Asian banks, 112
 - in Asian countries, 120–122, 241
 - and banks, 220–226, 240–241, 551
 - and business cycles, 242, 472–474
 - as collateral, 155, 219, 221, 325, 506, 519
 - and credit, 101–104, 121–122, 155, 220–221
 - (*see also* agency problems)
 - cyclicality, 103–104, 120–122, 241–242
 - in emerging markets, 220
 - as equity hedge, 159n35
 - income-producing, 241–242 (*see also* real estate, commercial)
 - information in, 462–463
 - and inheritance tax, 551
 - land, 218–220, 227n2, 455, 551
 - in Latin America, 129, 139, 142–144, 154–156
 - leveraging, 223, 226, 242
 - price determinants, 218–221, 228n11
 - and public policy, 124, 154–156, 225–226, 228n5
 - and regulation, 155, 220
 - rent, 228n12
 - and risk, 103–104, 221–226, 242, 324
 - and short selling, 218–219, 228n5, 241
 - traditional views, 241
 - See also* housing; real estate, commercial
- real estate, commercial
 - in Australia, 519, 524–525
 - and credit expansion, 539
 - demand factor, 219–220
 - and inflation, 524–525
 - leveraging, 223–226, 242
 - in New England, 530
 - short sales of, 241
- real estate investment trusts (REITs), 123, 155, 242, 514
- recessions, 17, 31
- recommendations, 210
- recovery
 - critical products, 511–514, 515
 - in developing countries, 506
 - foreign presence, 515
 - human capital role, 505–511, 514–515, 521, 531–533
 - in Japan, 505, 530
 - variations, 530–533
- regional crises, 316–320, 363
- regulation
 - in Asia, 112, 123
 - and behavioral finance, 235–236
 - and business cycles, 474–478, 518–521
 - of capital adequacy, 493–494
 - and financial professions, 514
 - implementation, 168–169
 - of information, 491–492
 - in Latin America, 155
 - of portfolio composition, 492–493, 518, 543–544
 - pre-emptive, 481–482, 533
 - and real estate, 220
 - of real estate, 155
 - recommendations, 474–478
 - See also* banking regulation
- Regulation Q, 74
- rent, 228n12
- residual income, 304
- residuals-augmented least squares (RALS), 133–134
- restructuring, corporate, 504–505, 513–514
- return on equity, 504
- risk
 - and business cycles, 475, 477
 - and equity prices, 559n2
 - and growth potential, 559n3
 - and high frequency trading, 239
 - nondiversifiable, 206
 - and process innovation, 305
 - and real estate, 242
 - and return, 206
 - versus* uncertainty, 28–29, 30
- risk management
 - and business cycles, 476–478
 - corporate restructuring, 513–514
 - and credit cycles, 540
 - distressed debt market, 511
 - and emerging market, 379, 511
 - for financial institutions, 21, 123
 - impact of, 20
 - provisioning, 471, 495–497, 502, 520–521, 526, 540–546

- risk management (*continued*)
 - real estate (REITs), 123, 155, 242, 514
 - versus* savings intermediation, 510–511
 - secondary markets, 155, 511–513, 519, 531
 - securitization, 512–513
 - stress testing, 497–498
- risk premium, 166–168, 171n2, 198, 440
- risk-shifting, 324–330, 384–384, 387, 503–504
- risk-taking
 - in Asia, 112, 123
 - by banks, 223–227
 - and central banks, 17
 - factors, 207, 214n10
 - and individual investor, 555–556
 - and mutual funds, 8–9
 - public policy, 123
 - and real estate, 103–104, 221–226
 - and stock market crashes, 54–55, 64
 - versus* uncertainty, 28–29
- Russia, 45, 368

- saving, 149
- savings and loan crisis, 506
- savings intermediation, 510–511
- scrappage, 420–421
- secondary markets, 155, 511–513, 519, 531
- securitization, 512–513
- segmented markets, 93
- Self-Exciting Threshold Autoregression (SETAR), 140, 141
- September 11, 2001, 74–75
- shareholders, 225, 505
- shocks, high- and low-frequency, 221–223
- short selling
 - and convenience yield, 190
 - and demand, 200
 - of Internet stocks, 194, 395
 - of land, 218–219, 228n5, 241
 - and pessimists, 200
 - of stock options, 551
 - and tech stocks, 182–183, 194
- short-termism, 19, 21
- short-term lending, 339–340
- Singapore, 102, 120, 124, 240
- small open economies
 - capital flows, 471, 519
 - exchange rates, 471, 518
 - monetary policy, 432–433, 435–436
 - See also* developing countries
- South Africa, 375
- Spain, 477, 502, 526, 537–546
- speculation, 363, 558
- spinoffs. *See* Palm
- stability. *See* financial (in)stability
- stabilization programs, 258
- Standard Augmented Dickey-Fuller tests (ADF), 133–134
- stock market crashes
 - 1903, 56–59
 - 1907, 58–59
 - 1917, 59–60
 - 1920, 60–61
 - 1937, 63–64
 - 1940, 64–65
 - 1946, 65–66
 - 1962, 66
 - 1970, 66–68
 - 1974, 68–69
 - 1987, 45, 55, 69–71
 - 1990, 71
 - 2000, 71–72
 - and bubbles, 46–47, 139–141, 294
 - and financial stability, 72–74, 76
 - identification, 55–56
 - and information, 54
 - and liquidity, 64, 74
 - minimization, 168–169
 - and risk, 54–55, 64
 - See also* Crash of 1929
- stress testing, 21, 497–498
- supervision, 550–551
- supply, 259, 430, 443n20, 447, 532
 - and business cycles, 469–471, 517
- Sweden, 505
- Switzerland, 433

- tax deductibility, 520–521
- taxes
 - on consumption, 86
 - on income, 301–302
 - in Japan, 551
- tax neutrality, 512
- tax rates, 293, 470, 551
- tax revenues, 470
- Taylor rule
 - and asset prices, 428
 - augmented, 169
 - data for, 87, 97n8
 - description, 88, 427
 - and exchange rate, 428
 - and Japan, 85, 86, 91, 95
- Tchebysheff inequality, 220
- technology, 27, 391–392, 399
 - See also* information technology
- technology shocks, 437, 475
- tech stocks
 - asset valuation, 419–420
 - and monetary policy, 454

- myths, 205–206
- and risk-shifting, 329
- theoretical explanations, 197–200
- valuation, 166–168
- See also* Internet stocks; NASDAQ bubble; Palm
- terms of trade, 141–144, 154
- testing, 131–137
- Thailand, 120, 123, 505, 525
- 3Com. *See* Palm
- threshold heuristics, 222
- timing
 - and bank capital, 351
 - and crisis indicators, 251
 - horizons, 439–440
 - and interest rates, 549
 - and monetary policy, 263, 295–296, 462–463
 - See also* frequency
- Tobin's q , 16, 146–147
- trading frequency, 239
- transaction costs
 - within Europe, 415
 - and foreign exchange, 406–407
 - Internet impact on, 391–392, 394–395, 399
 - and portfolio allocation, 404–410
- transparency, 20–21, 212, 511, 515
- See also* information
- Treasury bills, 178–179, 180, 182, 190
- trusts, 512
- t statistics, 193
- tulip mania, 232, 554, 556

- uncertainty, 28–29, 30
- underwriting standards, 223–224
- United Kingdom, 318, 473, 509
- United States
 - equity premiums, 559n2
 - and equity prices, 4–7, 15, 27, 472–474
 - financial expertise, 506
 - intrinsic bubble model, 137
 - investor behavior, 395–398, 404–410
 - and Japan, 318
 - and Latin America, 141, 142–144
 - New England, 530
 - productivity, 25–26, 170, 259, 407, 453
 - savings and loan crisis, 506
 - See also* Federal Reserve; monetary policy; NASDAQ bubble; stock market crashes
- valuation, 199, 363
 - of tech stocks, 166–168, 392–395, 419–422
 - See also under* equity markets; overvaluation
- value
 - and asset prices, 24
 - of company, 191
 - of equities, 271–273
 - of intangible assets, 421
 - of land, 227n2
 - perception of, 209–211, 212
 - versus* price, 206
 - and turnover, 193
 - See also* fundamental value
- Value-at-Risk (VaR)
 - and Asian real estate, 121–122
 - and business cycles, 471, 518, 551–552
 - effects of, 20, 21
 - and international crises, 317–319
 - versus* stress-testing, 497
- venture capitalists, 395–398
- volatility, 340, 557–558, 559n9
- See also* beta
- Volcker, Paul, 469–470
- volume, 191–194, 198, 240
- vulnerability factors, 250–256

- wages, 449–450, 453
- weak-form market efficiency, 8
- wealth effect, 15, 539
- workout loans, 225
- World War I, 59–61
- World War II, 64–65

- Y2K, 45