The Evolving Nature of the Financial System: Financial Crises and the Role of the Central Bank

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might be and how disturbances might be transmitted and amplified. Thus, this conference has the
United States have been well contained. However, with the rapid evolution of the financial system,
financial markets is central to the Federal Reserve's mission. Recent financial crises within the
periods, they reduce the threat of contagion across institutions and markets. To this end, the
infrastructure for the credit derivatives markets.

Stress tests employ either historical data from asset price distributions or hypothetical scenarios
access to credit during periods of systemic and institutional stress. Of course, the more that
enhance financial stability without increasing moral hazard. Indeed, sound risk management by all
against the risk that a low-probability--or "tail"--event could cause a financial crisis. Such practices
regulation from different regulators. For market discipline to be effective, counterparties must have
dictates as the prime source of constraint on possible crisis-causing behavior. It lessens the odds of
adverse implications for the economy. Drawing on our experiences, the Federal Reserve has been
subject to bouts of increased uncertainty that could build on themselves to disrupt the normal
expectations, and market prices adjust, sometimes very substantially and suddenly. And although
price movements called into doubt the creditworthiness of counterparties, which could no longer be
markets and taking positions and further exacerbated the price action. Fourth, the large and rapid
market, the "true" value of assets, and the future movement of asset prices. As a consequence,
movements in asset prices. Second, these price movements were exacerbated by market

The Federal Reserve, the central bank of the United States, provides the nation with a
safe, flexible, and stable monetary and financial system.