

# A Crash Course on Crises

MACROECONOMIC CONCEPTS FOR  
RUN-UPS, COLLAPSES, AND RECOVERIES

MARKUS K. BRUNNERMEIER  
RICARDO REIS

PRINCETON UNIVERSITY PRESS  
PRINCETON & OXFORD

## CONTENTS

1	Introduction	1
1.1	<i>Crashes</i>	1
1.2	<i>Organization of the Book</i>	3
1.3	<i>Uses of the Book</i>	8
1.4	<i>Acknowledgments</i>	9
<b>PART I. GROWING FRAGILITIES: THE RUN-UP TO CRISES</b>		11
2	Bubbles and Beliefs	13
2.1	<i>A Model of Bubbles with a Keynesian Beauty Contest</i>	13
2.2	<i>The Japanese Bubble of the Mid-1980s</i>	17
2.3	<i>The Internet Bubble of 1998–2000</i>	18
3	Capital Inflows and Their (Mis)allocation	21
3.1	<i>A Model of Misallocation</i>	22
3.2	<i>The Seeds of the Euro Crisis: Portugal's Twenty-First Century Slump</i>	26
3.3	<i>Chile's 1970s Liberalization and 1982 Crash</i>	28
4	Banks and Their Cousins	32
4.1	<i>Modern and Shadow Banks</i>	33
4.2	<i>U.S. Subprime Mortgages and Securitization</i>	35
4.3	<i>The Spanish Credit Boom of the 2000s</i>	37

<b>PART II. CRASHES: TRIGGERS AND AMPLIFIERS</b>	41
5 Systemic Risk, Amplification, and Contagion	43
5.1 <i>Strategic Complementarities, Amplification, Multiplicity</i>	43
5.2 <i>Systemic Risk in the Irish Banking Sector in the 2000s</i>	47
5.3 <i>The Emerging Markets' Storm of 1997–98</i>	49
6 Solvency and Liquidity	53
6.1 <i>Debt and the Challenging Illiquidity-Insolvency Distinction</i>	54
6.2 <i>The Run on the German Banking System in 1931</i>	59
6.3 <i>The Greek Sovereign Debt Crisis of 2010–12 and the IMF</i>	60
7 The Nexus between the Private and Public Sectors	65
7.1 <i>The Diabolic/Doom Loop</i>	66
7.2 <i>European Banks and Their Sovereigns in 2007–10</i>	67
7.3 <i>Argentina's 2001–02 Crisis</i>	68
8 The Flight to Safety	73
8.1 <i>Safe Assets</i>	73
8.2 <i>Borrowing Costs in the Euro Area: The 2010–12 Crisis</i>	75
8.3 <i>The Pandemic Flight to Safety of 2020</i>	78
<b>PART III. POLICIES AND RECOVERIES</b>	81
9 Exchange Rate Policies and the Speed of Recoveries	83
9.1 <i>A Model of Exchange Rates and Recovery</i>	84
9.2 <i>The Mexican Tequila Crisis of 1994–95</i>	88
9.3 <i>The Lasting Stagnation from the 2008 Global Financial Crisis</i>	90
10 The New Conventional Monetary Policy	93
10.1 <i>Reserve Satiation and Quantitative Easing</i>	94
10.2 <i>The Bank of Japan's Innovations since 1998</i>	97
10.3 <i>The Euro Area Yield Curve during Crisis</i>	99

11	Fiscal Policy and the Real Interest Rates	102
11.1	<i>Savings and Investment, Revisited</i>	103
11.2	<i>The Rise of Savings during the 2020 Pandemic</i>	106
11.3	<i>The End of the U.S. Great Depression</i>	109

**PART IV. PARTING WORDS** 113

12	Conclusion	115
----	------------	-----

*Bibliography* 117

*Index* 121