

Global Financial Instability: Framework, Events, Issues
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Discussion Questions

1. How, according to Mishkin, did adverse selection and moral hazard contribute to the financial crises that occurred in Mexico and east Asia in the mid-to-late 1990s?

What does Mishkin mean by adverse selection? Moral hazard? How are these two problems the same? How are they different?

What, according to Mishkin, caused the financial crises?

Was there a common cause?

Were the crises caused by irresponsible monetary and fiscal policies?

What does Mishkin mean by deterioration of balance sheets? How did such deterioration contribute to the crises?

Why, according to Mishkin, were banks in the crisis nations unable to recover from non-performing loans that occurred in the wake of an increase in bank lending in the 1990's?

How, according to Mishkin, did the fact that many crisis-nation loans were denominated in dollars accelerate the crisis?

Why, according to Mishkin, did the central banks of crisis nations err when they increased credit to troubled banks?

2. Why, according to Mishkin, can an international lender, such as the IMF, succeed in helping to end the crisis when a domestic central bank can not?

According to Mishkin, should the IMF be liberal in lending to nations facing a financial crisis?

3. What lessons should U.S. policy makers learn from the financial crises in Mexico and east Asia?