



The Failure Mechanics of Dealer Banks

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Abstract

During the recent financial crisis, major dealer banks – that is, banks that intermediate markets for securities and derivatives – suffered from new forms of bank runs. The most vivid examples are the 2008 failures of Bear Stearns and Lehman Brothers. Dealer banks are often parts of large complex financial organizations whose failures can damage the economy significantly. As a result, they are sometimes considered "too big to fail." The mechanics by which dealer banks can fail and the policies available to treat the systemic risk of their failures differ markedly from the case of conventional commercial bank runs. These failure mechanics are the focus of this article. This is not a review of the financial crisis of 2007-2009. Systemic risk is considered only in passing. Both the financial crisis and the systemic importance of large dealer banks are nevertheless obvious and important motivations.

Citation

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