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The road to financial stability: capital regulation, liquidity regulation, and resolution

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Abstract

Prior to the 2007-9 financial crisis, regulations addressing risk taking in the financial system were woefully inadequate. In this essay, I summarize the regulatory changes implemented over the past five years and come to three conclusions. First, as a result of the new Basel III standards, the global financial system is now substantially safer than it was, but probably not yet safe enough. Second, the costs of increasing capital requirements have been much smaller than we originally thought. And third, we are best advised to shy away from time-varying discretionary regulatory policies.

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