

## CRAWFORD SCHOOL OF ECONOMICS AND GOVERNMENT

# Complexity and Crises in Financial Systems

Prasanna Gai

Tuesday 17 March 2009

12.30 - 1.30pm

Seminar Room 4

First Floor, Crawford Building

Light lunch will be provided



The presentation will examine the role of macroeconomic fluctuations, asset market liquidity, and network structure in determining contagion and aggregate losses in a financial system. Systematic instability is explored in a financial network comprising three distinct, but interconnected, sets of agents – domestic banks, international financial institutions, and firms. Calibrating the model to advanced country banking sector data, sensible aggregate loss distributions are obtained which are bimodal in nature. Professor Gai will demonstrate how systematic crises may occur and analyse how the results are influenced by liquidity risk and bank heterogeneity. The seminar will conclude by discussing the model in the context of the ongoing financial crisis.

**Prasanna Gai** is Professor of International Economics and Director of Research at the Crawford School and a Senior Research Associate of the Financial Markets Group, London School of Economics (LSE), and the Centre for Applied Macroeconomics (CAMA). He is an academic consultant on financial stability matters to the Bank of England and an academic visitor to the Bank for International Settlements. Prior to joining Crawford, he was Senior Adviser at the Bank of England, most recently responsible for directing the Bank's research work on systemic risk and editing the Financial Stability Review. Prasanna has also been a Fellow in Economics at the Research School of Pacific and Asian Studies, ANU, a visiting lecturer at the University of Oxford, and a visiting fellow at the Hong Kong Institute of Monetary Research.

# CRAWFORD SEMINAR