Call for Proposals

Distress in Credit Markets: Theory, Empirics, and Policy

November 2008

The **Carnegie-Rochester Conference on Public Policy** is now soliciting papers for a conference on "Distress in Credit Markets: Theory, Empirics, and Policy." This conference will be held in Pittsburgh, at the Tepper School of Business, Carnegie Mellon University, on November 14-15, 2008. The papers and comments are slated for publication in a special issue of the **Journal of Monetary Economics** in July 2009.

The November 2008 Carnegie-Rochester conference seeks to advance the theoretical and empirical understanding of the causes and consequences of the "credit crunch of 2007-8" with a view to assessing the extent to which monetary, banking, and regulatory policies may have helped to create the credit crunch, and the extent to which actual and contemplated policy responses might have helped or hindered the containment of the credit crunch and its negative macroeconomic consequences.

Financial markets in the United States and around the world are undergoing a period of distress triggered by investor concerns about the credit quality of mortgages, especially subprime mortgages with adjustable interest rates. Credit ratings have been called into question for a wide range of structured financial products related to mortgages, even for previously highly-rated securities. The market for borrowing on short-term commercial paper to finance structured mortgage products in special-purpose vehicles has contracted amid a collapse of confidence in the ability of investors to value complex structures. Money center banks and other large financial institutions have rescued off balance sheet vehicles that they helped to create. Bank balance sheets have been expanded by reintermediation, and by an inability to resell in distressed capital markets other credits that banks had agreed to underwrite. Equity valuations of financial firms have been hurt by a collapse of market valuations of mortgage products. Consequently, a shortage of financial capital has developed in the banking system manifest in a tightening in the terms upon which banks are willing to provide funding to each other and to non-bank borrowers.

Among possible questions of interest are: Is there a market failure in the "originate to distribute" model of bank credit because of too little or too much financial regulation? To what extent does securitization reduce transparency and/or the incentive for monitoring? Could risk-based capital requirements have contributed to an inefficient creation of off balance sheet contingent liabilities for banks? What implications does the credit crunch have for accounting rules of off balance sheet vehicles sponsored by banks, and for mark-to-market accounting rules for banks? How should credit ratings be utilized by investors, banks, and regulators? How should one think about the process by which banks replenish depleted bank capital? How might one assess the effectiveness and desirability of the term auction facility employed by the Federal Reserve to intermediate borrowing and lending in the interbank market?

The editors invite detailed abstracts of no more than two pages describing the proposed research paper. (If a preliminary version of the paper is available, authors may include it with their abstract.) Proposals should be submitted electronically to Sue North, Editorial Assistant for the **Journal of Monetary Economics**, no later than April 10, 2008, at north@simon.rochester.edu The editors, in collaboration with the Carnegie-Rochester Advisory Board, will make the final selection of papers to be included in the Conference. Authors will be notified by May 10, 2008 if their paper has been selected. Authors will receive an honorarium of $2500 and be expected to present their paper at the Conference. The papers should represent original research not presented or published elsewhere. Since the papers are intended for publication, authors will not be able to publish or reprint the work elsewhere without the permission of the editors and publisher. <u>Please note that the editors will contact authors only if their paper is accepted.</u>