

Discussion of “Why did it happen again? The American subprime crisis compared with the Norwegian Banking crisis 1987-93”

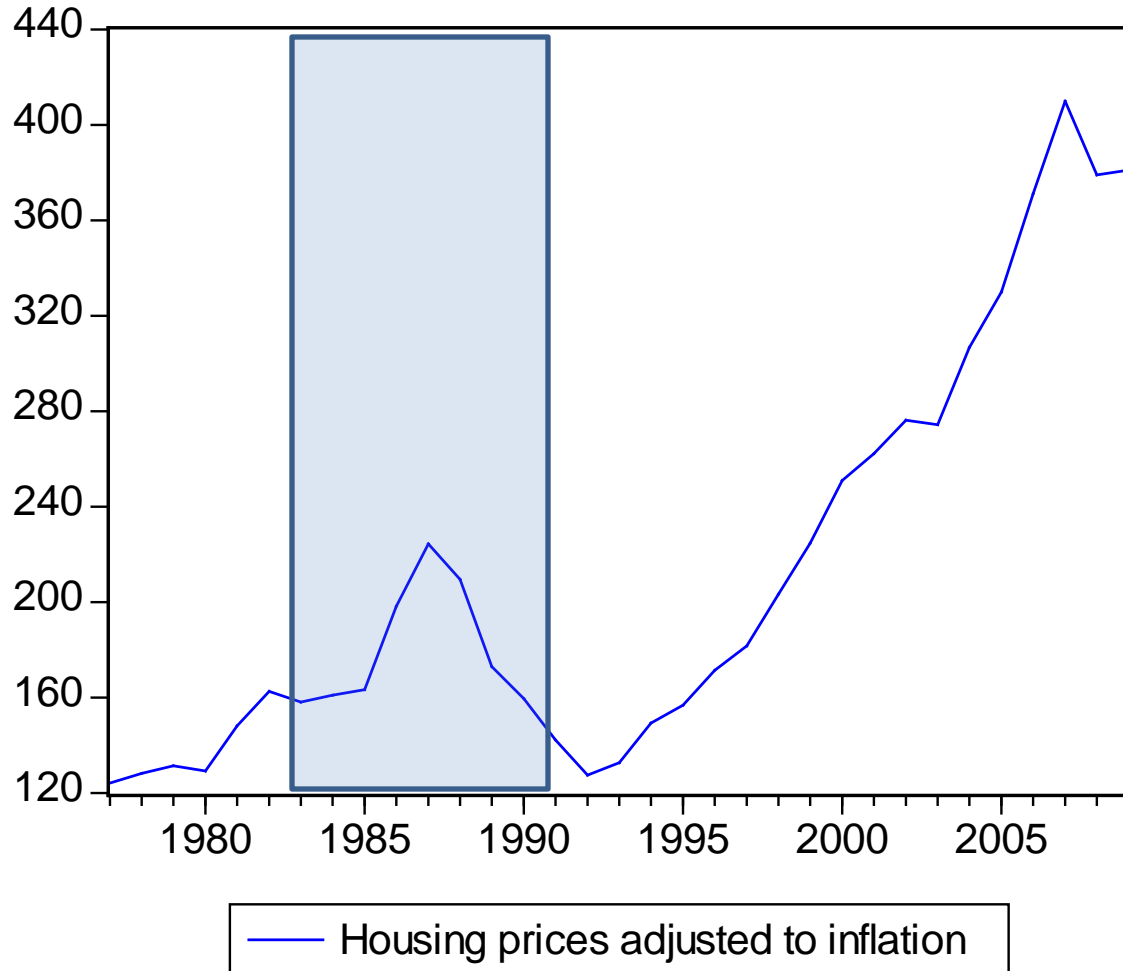
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- Summary of main points:
- There is something systematic in financial bubbles and their collapses – Minsky, Kindleberger
- Blame: Easy credit – before and herd behavior
- Bad regulation.



Trade Cycle cartoon, from a print

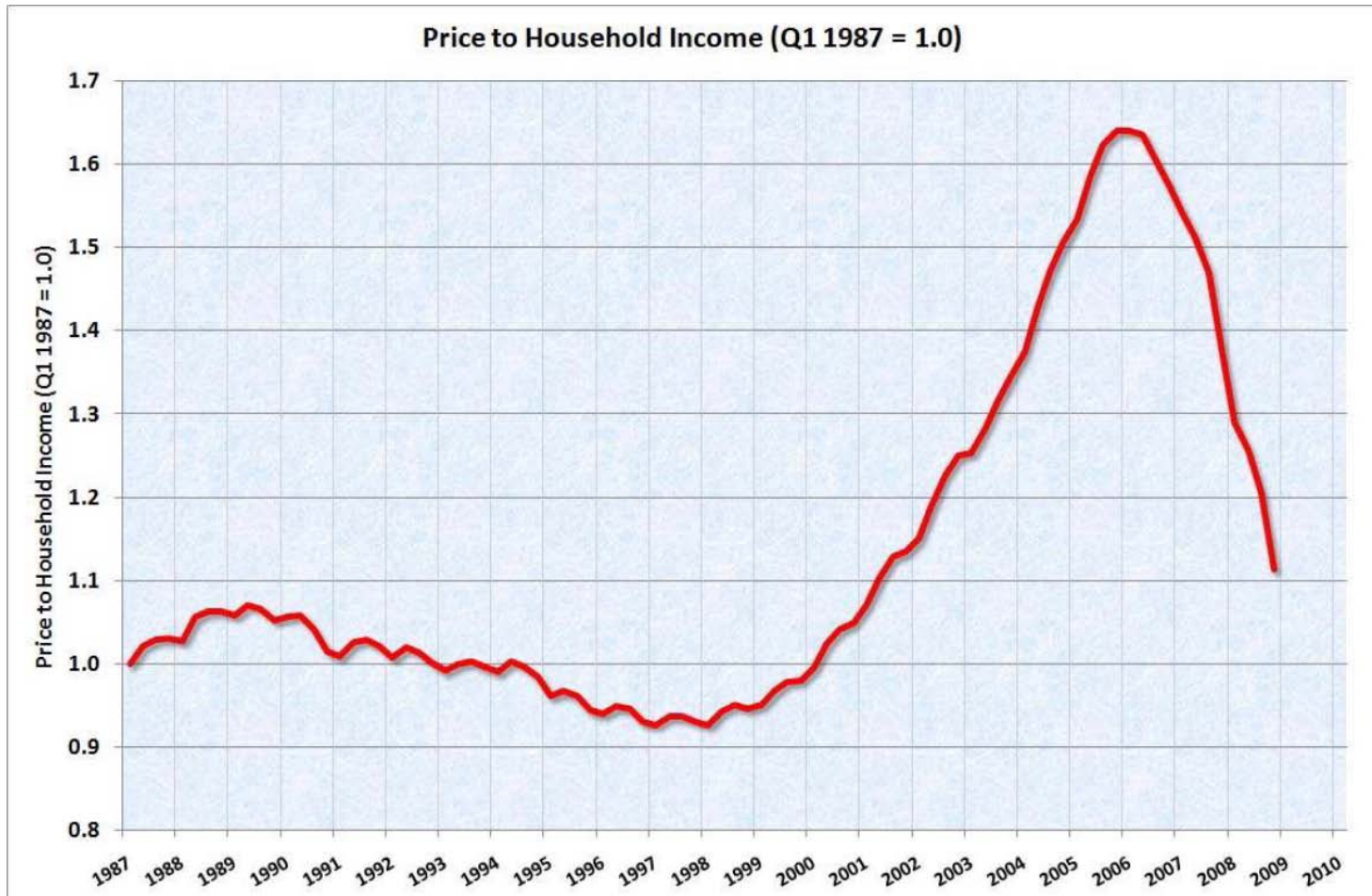
Norway's housing bubble 1980s ?



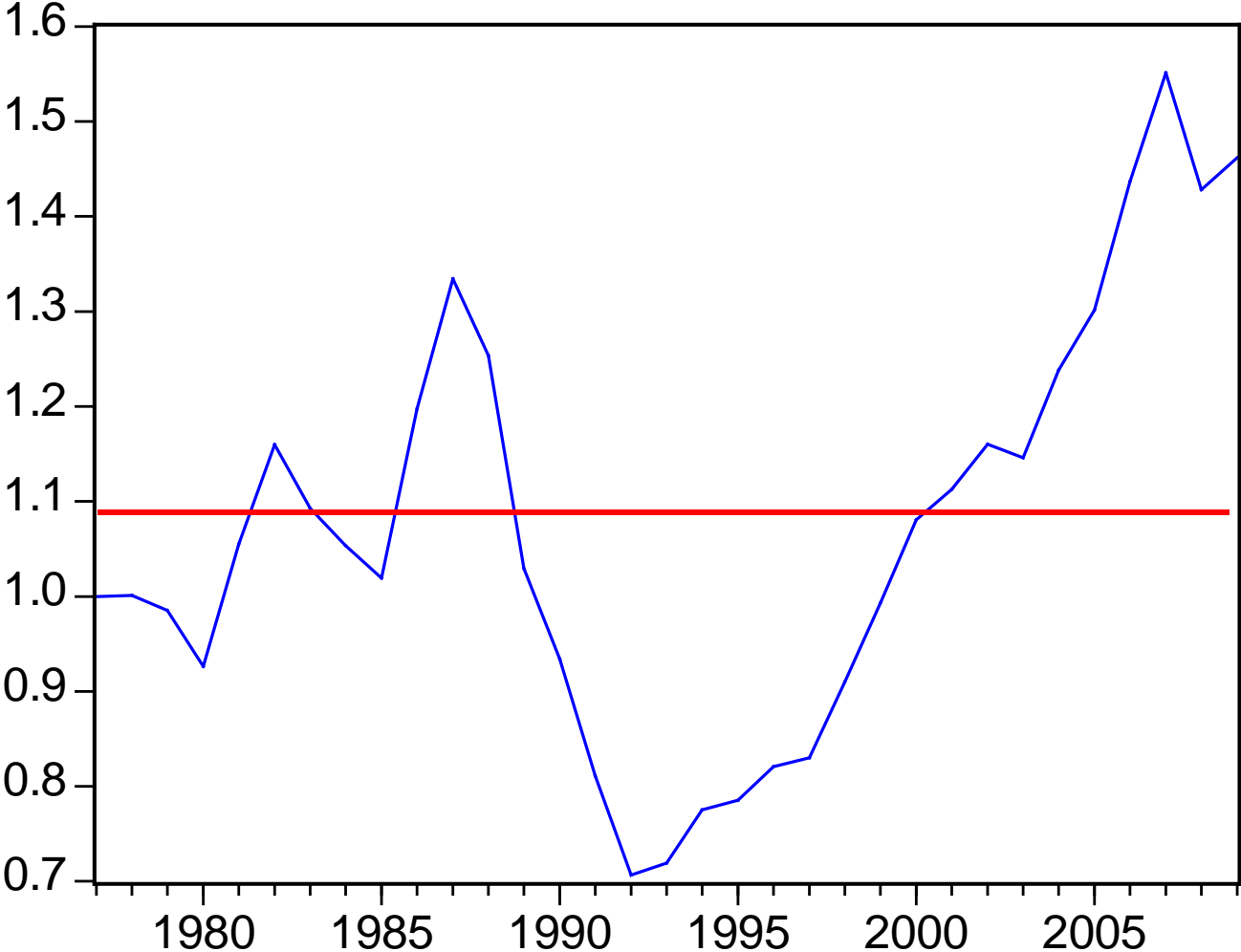
Evaluating bubble

- A typical measure – house prices relative to mean income (GDP per capita)

US: Case-Shiller



Norway



— House prices relative to income

Bubble – when asset price deviate from underlying fundamentals

- Test – stochastic properties of asset prices versus – fundamentals income per capita

unit root tests		
real house prices	gdp per capita	
I(1)	I(1)	
I(1)	I(1)	
I(1)	I(1)	
I(2)	I(2)?	
I(2)	I(2)	

Financial regulation

- Financial deepening
- In Arrow-Debreu world – full information – this is a good thing
- Problem: asymmetric information
- No matter how much we regulate – crises will occur by the very nature of the process described in the paper

What's do be done?

- At this stage economics, as a science, can not really prevent disease
- It can:
 - 1. Immunize – safety nets
 - 2. Successful Emergency treatment
- Going back to my paper (sorry), given our knowledge, a stable environment increases and well equipped emergency room increases likelihood of successful treatment