

Apr 17:

- Change in leading to 2008:
 - shadow banking
 - bank deregulation
 - financial product innovation

Shadow banking sector:

- banking outside the eye of regulators
- no deposit insurance

Repo: deposit from banking for large financial institutions

- No deposit insurance
- Asymmetric info about risk of banking \rightarrow run
- Bank Run in Shadow banking sector
 - unwind counterparty risk

2008 Bank Bailout: TARP (Troubled Asset Relief Program)

Balance Sheet:

- CMO: collateralized mortgage obligation
- bond dependent on value of mortgage

Assets	Liabilities
\$ 80 CMOs	\$ 100 Deposits
\$ 50 cash	\$ 30 Net worth

\$ 80 in Period 2

\$ 40 in Period 1

→ Financial crisis in period 1

Assets	Liabilities
\$ 40 CMOs	\$ 100 Deposits
\$ 30 cash	\$ 30 NW

Cash injection: \$ 12

Assets	Liabilities
\$ 40 CMOs	\$ 100 deposits
\$ 30 cash	\$ 2 NW
\$ 12 assistance	

Took equity in bank, sold at profit