Contents

	About the Editor	ix
	About the Authors	xi
	Introduction	xxiii
PA	ART I THE ROOTS OF THE CRISIS	1
1	The Credit Crunch of 2007: What Went Wrong? Why? What Lessons Can be Learned? John C. Hull Rotman School of Management, University of Toronto	3
2	Underwriting versus Economy: A New Approach to Decomposing Mortgage Losses Ashish Das, Roger M. Stein Moody's Research Labs	23
3	The Shadow Banking System and Hyman Minsky's Economic Journey Paul McCulley PIMCO	49
4	The Collapse of the Icelandic Banking System <i>René Kallestrup; David Lando</i> Danmarks Nationalbank, Copenhagen Business School; Copenhagen Business School	65
5	The Quant Crunch Experience and the Future of Quantitative Investing Bob Litterman Goldman Sachs (Partner, retired), Commonfund (Trustee)	121
PA	RT II THE IMPACT ON THE MARKETS	127
6	No Margin for Error: The Impact of the Credit Crisis on Derivatives Markets Jeffrey Rosenberg Bank of America Merrill Lynch	129
7	The Re-Emergence of Distressed Exchanges in Corporate Restructurings Edward I. Altman, Brenda Karlin NYU Salomon Center	167

PART III RISK MANAGEMENT AND REGULATION	185
8 Modelling Systemic and Sovereign Risks Dale F. Gray, Andreas A. Jobst International Monetary Fund	187
9 Measuring and Managing Risk in Innovative Financial Instruments Stuart M. Turnbull C. T. Bauer College of Business	231
-10 Forecasting Extreme Risk of Equity Portfolios with Fundamental Factors Vladislav Dubikovsky, Michael Y. Hayes, Lisa R. Goldberg, Ming Liu MSCI Risk Analytics	265
PART IV QUANTITATIVE MODELLING	281
11 Limits of Implied Credit Correlation Metrics Before and During the Crisis Damiano Brigo; Andrea Pallavicini; Roberto Torresetti King's College London; Banca Leonardo; Quaestio Capital Management	283
12 Another view on the pricing of MBSs, CMOs and CDOs of ABS Jean-David Fermanian CREST-ENSAE	s 319
13 Pricing of Credit Derivatives with and without Counterparty and Collateral Adjustments Alexander Lipton; David Shelton Bank of America Merrill Lynch, Imperial College London; Bank of America Merrill Lynch	347
14 A Practical Guide to Monte Carlo CVA Alexander Sokol CompatibL	379
PART V MARKET EFFICIENCY AND (IN)STABILITY	407
15 The Endogenous Dynamics of Markets: Price Impact, Feedback Loops and Instabilities Jean-Philippe Bouchaud Capital Fund Management	409
16 Market Panics: Correlation Dynamics, Dispersion and Tails Lisa Borland Evnine and Associates Inc	439

17	Financial Complexity and Systemic Stability in Trading Markets Matteo Marsili; Kartik Anand Abdus Salam International Centre for Theoretical Physics; Technische Universität Berlin	455
18	The Martingale Theory of Bubbles: Implications for the Valuation of Derivatives and Detecting Bubbles Robert A. Jarrow; Philip Protter Cornell University and Kamakura Corporation; Cornell University	493
PART VI LESSONS FOR INVESTORS 51		
19	Managing through a Crisis: Practical Insights and Lessons Learned for Quantitatively Managed Equity Portfolios <i>Peter J. Zangari</i> Goldman Sachs	515
20	Active Risk Management: A Credit Investor's Perspective Vineer Bhansali PIMCO	545
21	Investment Strategy Returns: Volatility, Asymmetry, Fat Tails and the Nature of Alpha Arthur M. Berd	565
	Capital Fund Management	