



# The Prudential Regulation of Banks

By Mathias Dewatripont

Mit Press. Paperback. Book Condition: New. Paperback. 272 pages. Dimensions: 8.9in. x 5.9in. x 0.7in. The Prudential Regulation of Banks applies modern economic theory to prudential regulation of financial intermediaries. Dewatripont and Tirole tackle the key problem of providing the right incentives to management in banks by looking at how external intervention by claimholders (holders of equity or debt) affects managerial incentives and how that intervention might ideally be implemented. Their primary focus is the regulation of commercial banks and S and Ls, but many of the implications of their theory are also valid for other intermediaries such as insurance companies, pension funds, and securities funds. Observing that the main concern of the regulation of intermediaries is solvency (the relation between equity, debt, and asset riskiness), the authors provide institutional background and develop a case for regulation as performing the monitoring functions (screening, auditing, covenant writing, and intervention) that dispersed depositors are unable or unwilling to perform. They also illustrate the dangers of regulatory failure in a summary of the S and L crisis of the 1980s. Following a survey of banking theory, Dewatripont and Tirole develop their model of the capital structure of banks and show how optimal regulation can...



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