‘The role of networks and confidence in financial stability’

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ABSTRACT:

In light of events in global financial markets since 2007, there has been increasing appreciation of the need for a systemic perspective of financial stability. For example: how does contagion spread across financial networks? What role do large banks play in systemic risk? How should regulation be designed to enhance the resilience of the system? In this talk I will discuss some deliberately simplified models of banking systems developed to address these questions. The approach draws inspiration from developments in theoretical ecology since the 1970s, and emphasises in particular the role of confidence in financial networks. I will also outline preliminary work, that seeks to link these models more closely with data on the dynamics of modern financial systems.