Derivatives: The Wild Beast Of Finance

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As such, should the “wild beast of finance” be tamed, and more importantly, can it even be tamed in the first place. Ironically, derivatives were developed as a way for corporates, investors and financial institutions to mitigate and manage risk. However, the global financial crisis taught us that, far from reducing risk, over-the-counter derivatives, which were completely deregulated by the US government in 1999-2000, actually amplify it. Governments and policymakers are determined to drag derivatives trading and clearing, kicking and screaming into the daylight, in the belief that, if they can. While derivatives markets are one of the more technical areas of finance, the boxes, glossary, and extensive footnotes and references make the book accessible to general readers. The book, which has four major sections, begins with some historical perspective and background, including a discussion of the key functions of financial markets, the “Americanization” of finance (that is, increased reliance on liquidity and trading of credit), and a description of some well-known episodes of financial distress associated with derivatives (such as the collapse of Barings). Overall, the book is worthwhile reading for those interested in financial policy in general, and in the policy issues associated with derivatives in particular.