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2 State budgets and the business cycle: Implications for the federal balanced budget amendment debate

Leslie McGranahan

Balanced budget amendment proponents often use the experience of the states with balanced budget restrictions as an argument in favor of a federal balanced budget amendment. However, the state experience is not directly relevant to the federal government. State restrictions are more lenient than those considered at the federal level, and many of the techniques used by the states to balance their budgets over the business cycle are not available to the federal government.

18 Birth, growth, and life or death of newly chartered banks

Robert DeYoung

Thousands of new commercial banks have been chartered in the U.S. over the past two decades. This article documents how the financial characteristics of new banks evolve over time, develops a simple theory of why and when new banks fail, and tests the theory using a variety of methods.

36 New facts in finance

John H. Cochrane

In the last 15 years, the cherished “random walk” view that stock returns are unpredictable, the “CAPM” view that the market is the only benchmark and market exposure the only source of returns, and the “expectations hypothesis” relating interest rates of various maturities and countries have all been abandoned. This article surveys this revolution in finance, explaining and integrating the new view of the facts.

59 Portfolio advice for a multifactor world

John H. Cochrane

How does traditional portfolio theory adapt to the new facts? The old “two-fund” theorem becomes a “many-fund” theorem; some investors can improve returns by investing in portfolio strategies that let them take on nonmarket sources of risk; and other investors can shed nonmarket risks in the same way. Investors can, if willing to take on the risks, improve returns by some modest market timing. However, the average investor must always hold the market, so only investors who are different from average can benefit from holding new and unusual portfolios.

79 Audio tapes for 1999 Bank Structure Conference