Referee Report

Expansion of Deposit Insurance Coverage During Fall 2008: Selected Challenges

The paper provides a useful framework for thinking and analyzing one particular policy response to a recent crisis: the expansion of deposit insurance limits. However, the analysis is missing the discussion other "context" of such policy response—the programs implemented or proposed to be implemented to boost banking liquidity, consumer confidence, and restore order in the financial markets. All these programs need to be analyzed together, in my opinion, even if the primary focus of the analysis is about one particular program. Please find some more detailed remarks, intended to improve the analysis of the paper, below.

On page 2, where the author mentions the other historical episodes of financial crises, a list of studies that reached the same conclusion and actually provided some empirical evidence for the statement, needs to be mentioned. Examples of such studies abandon: "The Aftermath of Financial Crises" by Reinhart and Rogoff, "Output Loss and Recovery from Banking and Currency Crises: Estimation Issues" by Angkinand, "What I read about the Global Financial Crisis in 2007 and 2008" by De Cock, "Understanding the Subprime Mortgage Crisis" by Demyanyk and Van Hemert, "Deciphering the Liquidity and Credit Crunch 2007-08" by Brunnermeier, "An Anatomy of Credit Booms: Evidence From Macro Aggregates and Micro Data" by Mendoza Terrones, "Systemic Banking Crises: A New Database" by Laeven and Valencia, "Did Securitization Lead to Lax Screening? Evidence from Subprime Loans" by Keys, Mukherjee, Seru, and Vig, "Are Weak Banks Leading Credit Booms? Evidence from Emerging Europe" by Tamirisa and Iganand, and many more...

On page 4, where the author describes two sets of 'emergency policy measures.' Why stop at two? There are more measures than the two listed in the paper. If the author meant to make the broad distinction and the two above mentioned measures include all currently available, this needs to be carefully described.

On page 5, on the diagram, a measure labeled "Bank Capital Injections..." Is this a broad enough term? If so, an extensive explanation and/or discussion is needed. For example, the author may refer to a study by Barth et al " The Rise and Fall of the U.S. Mortgage and Credit Markets: A Comprehensive Analysis of the Meltdown" that offers a reader a comprehensive list of US emergency policies, their timing, goals, and an analysis of each.

On page 7, Figure 2, the author demonstrates the deposit insurance coverage limits for different countries, using exchange rates for two dates. I would suggest using a purchasing power adjustment for the more meaningful comparison across countries. For example, 100 US dollars can buy very different amounts of goods and services in Russia, Italy, and Austria.

On or around page 8, I would recommend the author to mention and analyze the example Germany in 2005, where increased guarantees caused excess liquidity (via bonds creation); this excess resulted in subsequent ABS securities purchases (as investment opportunity); big fraction of these securities, in turn, defaulted and led to massive problems thereafter.

On page 9, around the moral hazard argument: banks with insured deposit insurance are normally monitored and regulated... An analysis that specifies what monitoring and regulation can and/or cannot cover, why and in what particular cases unlimited deposit insurance can lead to moral hazard needs to be made.

On page 11, second paragraph: new lending facilities need to be mentioned and analyzed alongside the credibility of the guarantees discussion. Again, deposit insurance is not the only policy that signals to the market participants about how credible the government is.

I would suggest the author to say "Author's estimates" instead of "Own estimates" for the legend of the Figure 4.

On page 12, the paragraph that starts with "conceptually, the value of an unlimited deposit and broader debt guarantee is..." is confusing. It needs to be either deleted, or rewritten and explained.

In summary, the paper can potentially be of interest to many readers if it a) carefully outlines and summarizes what is going on in terms of all available and proposed emergency policy responses and then, in the context of the broader picture, analyzes the deposit insurance issues; b) proposes some analytical or economic framework, that is based on either original author's study or past studies widely available in the growing body of economic research about the crisis and policy responses.