

## **LSE's Financial Markets Group launches The Paul Woolley Centre for the Study of Capital Market Dysfunctionality**

The Financial Markets Group (FMG) [<http://fmg.lse.ac.uk/>] at the London School of Economics and Political Science (LSE) launched the Paul Woolley Centre for the Study of Capital Market Dysfunctionality this month (September).

The new centre has been introduced as an FMG research programme and is funded through a generous donation of £4 million over six years by Dr Paul Woolley. Professor Dimitri Vayanos. [<http://personal.lse.ac.uk/vayanos/>], professor of finance at LSE, is the centre's director.

The Paul Woolley Centre for the Study of Capital Market Dysfunctionality aims to understand the workings of capital markets and the social efficiency of allocations these markets achieve. In standard models, markets operate efficiently in the sense that prices reflect assets' true values and capital is put to its best uses. The efficiency ideal seems, however, often violated in practice. For example, during the tech bubble of the late 1990s, prices of tech stocks rose to levels incommensurate with companies' earning potential. Such discrepancies between price and value can generate important misallocations of capital in the economy: for example, excessive capital was diverted to the tech sector during the bubble.

Research at the Centre has three main goals:

1. To understand the causes of market dysfunctionality, eg, informational asymmetries between market participants, or frictions arising from the delegation of money management
2. To evaluate the consequences of dysfunctionality, eg, how frictions impact price behaviour and capital allocation, and whether the allocation of capital to the financial sector itself is efficient, and
3. To propose policy remedies for dysfunctionality so that the financial sector can better serve society at large.

The Centre's work-programme allows scope for a wide variety of activities, including the publication of a dedicated working paper series, conferences and seminars, a visitors programme and scholarships.

Dr Paul Woolley's career has spanned the private sector, academia and policy-oriented institutions. He has worked at the International Monetary Fund in Washington and as a director of the merchant bank Baring Brothers. For the past 20 years he has run the European arm of GMO, the global fund management business based in Boston, US. Dr Woolley has now returned to academic life funding the Paul Woolley Centre for the Study of Capital Market Dysfunctionality. He is chairman of the Advisory Board for the Centre and will be a full time member of the research team.

Howard Davies, Director of the LSE and a member of The Paul Woolley Centre's Advisory Board, said: 'We are very grateful to Paul Woolley for his generous and public-spirited support for this important research. The output will attract a lot of interest from financial market participants and regulators.'

Dr Paul Woolley, founder of The Paul Woolley Centre for the Study of Capital Market Dysfunctionality, said: 'I am thrilled to have been able to establish the Centre here at the LSE with such a talented team. I believe the Centre's research into the social efficiency of capital markets will deliver ground-breaking results at the theoretical, empirical and policy level.'

Professor Dimitri Vayanos, director of The Paul Woolley Centre for the Study of Capital Market Dysfunctionality, said: 'I believe that the research questions are of fundamental importance to Finance, and are likely to become the dominant paradigm for Capital Markets research in the years to come.'

David Webb, director of the Financial Markets Group at LSE said: 'Recent episodes in global financial markets have highlighted the need for new research on the functioning and potential failure of financial markets in allocating capital. The new centre promises an original and challenging research agenda that will deepen our understanding of a host of fundamentally important questions.'

For more information please visit The Paul Woolley Centre website at <http://www.lse.ac.uk/PaulWoolleyCentre/>

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