

An Investigative Primer On The London Interbank Offered Rate



LIBOR: An Investigative Primer on the London Interbank Offered Rate

★★★★★ 5 out of 5

Language	: English
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Text-to-Speech	: Enabled
Screen Reader	: Supported
Enhanced typesetting	: Enabled
Word Wise	: Enabled
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The London Interbank Offered Rate (LIBOR) is a benchmark interest rate that is used as a reference for many financial contracts around the world. It is the average interest rate at which banks in London lend to each other on a short-term basis. LIBOR is used to set the interest rates on a wide range of financial products, including loans, bonds, and derivatives.

LIBOR was first introduced in 1986 by the British Bankers' Association (BBA). The BBA is a trade association that represents the interests of banks in the United Kingdom. LIBOR is calculated by a panel of banks that are selected by the BBA. The banks are asked to submit their estimates of the interest rates at which they would lend to each other on a given day. The BBA then calculates the average of these estimates and publishes the resulting LIBOR rate.

LIBOR is one of the most important interest rates in the world. It is used to set the interest rates on a wide range of financial products, and it is also used as a benchmark for other interest rates. However, in recent years, LIBOR has come under scrutiny due to concerns about its reliability and accuracy.

Controversies Surrounding LIBOR

In 2012, it was revealed that some of the banks that were submitting estimates to the BBA were manipulating the LIBOR rate. This manipulation allowed the banks to profit from trades that were based on LIBOR. The LIBOR scandal led to a number of investigations and criminal prosecutions. As a result of the scandal, the BBA reformed the way that LIBOR is calculated.

Despite the reforms, there are still concerns about the reliability and accuracy of LIBOR. Some critics argue that LIBOR is not a true reflection of the cost of borrowing money in the interbank market. They argue that the banks that submit estimates to the BBA are not always truthful about the interest rates at which they would lend to each other.

Others argue that LIBOR is too volatile. They argue that the LIBOR rate can change significantly from day to day, which can make it difficult for businesses to plan their finances. They argue that a more stable interest rate would be more beneficial to the economy.

The Future Of LIBOR

The future of LIBOR is uncertain. The BBA is currently considering a number of reforms to the way that LIBOR is calculated. These reforms are

designed to make LIBOR more reliable and accurate. However, it is unclear whether these reforms will be successful.

Some experts believe that LIBOR will eventually be replaced by a new benchmark interest rate. A number of new benchmark interest rates have been proposed, but none have yet gained widespread acceptance.

LIBOR is a complex and controversial benchmark interest rate. It is used to set the interest rates on a wide range of financial products, and it is also used as a benchmark for other interest rates. However, there are concerns about the reliability and accuracy of LIBOR. The future of LIBOR is uncertain, but it is likely that it will eventually be replaced by a new benchmark interest rate.



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