

Financial Crises: A Global Perspective: BSAD 297, CIVT 202

J-Term 2011

MTWRF, 12:30 to 3:45 PM, MC 103

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COURSE WEBSITE: Moodle

Course Description:

In this seminar, students will explore the **causes** and **consequences** of financial panics and crashes, including the one that struck in 2008 and the *pressing immediate* question of whether another financial crisis may be looming on the horizon. No prior knowledge of financial institutions or markets is required.

Class sessions will involve the discussion of the common readings listed below as well as in-class *laboratory experiments*, simulations, group projects, and role playing games. Guest speakers will also be invited to speak to the class on selected topics.

Attendance AND active participation are key, required components of the course. Students will also complete the individual project described below. Grades will be a function of attendance, participation, and the project.

Course Objectives:

By the end of this course, students *will demonstrate critical thinking skills that are specific* to the *disciplines* of history, economics, and finance. Specifically, they should be able to **critique** financial crisis-related articles and segments in major newspapers, general periodicals, and television and to **comprehend** narrative (non-mathematical) financial crisis-related debates in policy books and scholarly journals and working papers (such as those posted on SSRN) by *recognizing key theoretical concepts and underlying assumptions in an argument*.

To achieve those overall objectives, students will need to master the daily session objectives listed below.

Required Reading List:

Robert E. Wright and Vincenzo Quadrini, *Money and Banking* (Flat World Knowledge, 2009). 978-0-9820430-8-0 b&w or 978-1-936126-14-9 color

Please note that the entire book is also available, *gratis* and in color, here:
<http://www.flatworldknowledge.com/rewright/financial-crises-global-perspe>

Carmen Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009). 978-0-691-14216-6

Supplementary readings available on Moodle.

Daily Schedule:

Monday, 3 January: Overview of the Course, the Financial System, and Money

Read: *Money and Banking* chapters 1, 2, and 3

By the end of this session, students should be able to **describe** the major economic functions performed by financial firms and markets as well as those performed by money. They should also be able to **explain** the importance of a well-functioning financial system to economic growth and human welfare.

Tuesday, 4 January: Pricing Bonds and Stocks

Read: *Money and Banking* chapters 4, 5, 6, and 7

Given appropriate inputs like interest rates, students should be able to **calculate** the prices of major debt and equity instruments and to **graph** how changes in supply and demand would affect equilibrium prices and quantities.

Wednesday, 5 January: Intermediaries

Read: *Money and Banking* chapters 8, 9, 10, 11

Students should be able to **list**, **define**, and **provide** examples of all three major types of asymmetric information. They should also be able to **describe** the recent history of financial sector innovation, structure, and regulation.

Thursday, 6 January: Domestic Macroeconomic Policy

Read: *Money and Banking* chapters 13, 14, 15, 16, 17

Students should be able to **explain** how and why the central bank determines the domestic money supply and to **describe** the effects of its policy actions.

Friday, 7 January: The International Financial System

Read: *Money and Banking* chapters 18 and 19

Students should be able to **define** foreign exchange and **list** and **explain** the major variables that explain short and long term fluctuations in exchange rates. They should also be able to **describe** the trilemma of international monetary regimes and **explain** its significance.

Monday, 10 January: Financial Crises

Read: *Money and Banking* chapter 12 and chapter 23 (section 5 only); *This Time is Different*, chapters 1, 2, 3, and 4

Students should be able to list **four** different types of financial crises and **describe** the typical sequence of events in each.

Tuesday, 11 January: Sovereign Debt Crises

Read: *This Time is Different*, chapters 5, 6, 7, 8, and 9

Students should be able to **compare and contrast** external and domestic sovereign debt crises.

Wednesday, 12 January: Banking and Currency Crises

Read: *This Time is Different*, chapters 10, 11, 12

Students should be able to **describe** the causes and consequences of banking and currency crises.

Thursday, 13 January: The Subprime Mortgage Crisis and the Panic of 2008

Read: Museum of American Finance Timeline (Moodle and posters)

Students should be able to **narrate** and **explain** the major events leading up to the crisis of fall 2008.

Students will also orally present their S.I.I.P. proposals at the beginning of class.

Friday, 14 January: Hybrid Failures and the Panic of 2008

Read: Wright, *Fubarnomics*, chapter 2 (Moodle)

Students should be able to **define** hybrid failure, **list** five major market and five major government failures, and **explain** how specific failures led to the financial crisis of 2007-8.

Monday, 17 January: Economic Consequences

Read: *This Time Is Different*, Chapters 13, 14, 15, 16, 17

Students should be able to **describe** the consequences of financial crises in general and the 2008 crisis in particular and to **differentiate** between shared shocks and contagion effects.

Tuesday, 18 January: Local and Global Impact

Read: Moodle readings

By the end of this session, students should be able to **describe** and **assess** the economic impact of the panic on financial markets and economies across the globe, including Sioux Falls and the Upper Midwest.

Wednesday, 19 January: A Short History of Bailouts

Read: Wright, *Bailouts* (Moodle)

Students should be able to **define** bailout, **list** and **briefly describe** five major examples of bailouts, **describe** their goals and stated rationale, and **discuss** their overall pros and cons.

Thursday, 20 January: The Great Bailouts of 2008-2009

Read: Moodle readings

Students should be able to **describe** the bailout activities undertaken by at least five governments worldwide and **assess** their net effectiveness to date.

Friday, 21 January: Looking Forward

Read: Moodle readings

Students should be able to **describe** and **assess** at least two recent policy reforms and at least two pending financial policy recommendations. They should also be able to **discuss** the possibility of another crisis striking soon.

Monday, 24 January: Student S.I.I.P. presentations

Tuesday, 25 January: Student S.I.I.P. presentations

Wednesday, 26 January: Student S.I.I.P. presentations

S.I.I.P. (Student Initiated Individual Project):

On Thursday, 13 January each student will propose (orally, in class) an original individual project related to the course and its objectives. The project may provide a general overview of the causes and consequences of financial crises or it may explore a single aspect of crises (e.g. bubbles or bailouts) in detail. It may consist of a traditional term paper and presentation; written or video blog; video game or Xtranormal animated movie; survey or experiment (and statistical analysis and write up of results); song or other musical composition, poem, or short story; white paper or policy recommendation; business, investment, or lesson plan; grant or book proposal; book, article, or television review; documentary, movie, play, or script; and/or any other original, creative endeavor approved by the instructor and other students. Students should see the instructor on or before his office hours on Wednesday, 12 January if they have any questions about acceptable project forms.

Students will present their S.I.I.P.s during the final 3 days of class in random order so all S.I.I.P.s must be completed before class on Monday, 24 January. Five students will present each day for approximately 35 minutes each. Presentations must be extemporaneous (In other words, students may not read them verbatim but they may use note cards or PowerPoint slides.) and should describe or summarize the project and its major findings or output.

As detailed below, the S.I.I.P. and its presentation will account for almost half of the course grade and must demonstrate mastery of the course and daily session objectives. Students should put the appropriate time and effort into the project. There will be no makeups or do overs so students should seek the instructor's advice if they have any questions or concerns regarding the quantity or quality of their project BEFORE it is due.

The instructor will provide a S.I.I.P./presentation grade and feedback. Students will also anonymously grade and comment upon other students' projects and presentations.

Grading Guidelines:

Grades will be a function of:

- Attendance (body in class, hourly increments, 100 – no. hours missed²): 20%
- Participation: 20%
- S.I.I.P. (professor): 40%
- S.I.I.P. (peer): 20%

A+ \geq 97.5; A \geq 95; A- \geq 90; B+ \geq 87.5; B \geq 85; B- \geq 80 and so forth ...

Honor Code:

As a community of scholars, the students and faculty at Augustana College commit to the highest standards of excellence by mutually embracing an Honor Code. The Honor

Code requires that examinations and selected assignments contain the following pledge statement to which students are expected to sign:

On my honor, I pledge that I have upheld the Honor Code, and that the work I have done on this assignment has been honest, and that the work of others in this class has, to the best of my knowledge, been honest as well.

Faculty members are responsible for investigating all instances involving any student who does not sign the Honor Pledge or who bring forward an academic integrity concern. The complete Honor Code can be found at www.augie.edu/admin/acadaff/.

Disability Services:

Any student who feels that he or she may need to discuss reasonable accommodations for a disability, please see the instructor during office hours. Students with questions regarding disability services including appropriate documentation and coordination of reasonable accommodations are welcome to contact Susan Bies at the Student Academic Support Service Office located in the Career Center Suite, Room 100. The office phone number is 274-4403 and her e-mail is susan.bies@augie.edu.