

## Understanding the Financial Crisis

### Common Core CCGL9030

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Class hours: Wednesday 4:30 pm – 6:20 pm (MW T1)

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### Introduction

As a subprime mortgage crisis that started in America in 2008, the crisis speedily mutated into a “systemic risk” threatening the financial system of every advanced and emerging economy. The financial contagion quickly exacerbated the impact of the crisis by transmitting the financial shocks through the interlinked financial markets to the whole global economy.

Sooner than expected, millions of people in America, Europe and even China lost their jobs and fell into poverty. Almost overnight the entire investment banking industry worldwide was wiped out. The crisis that started out in America has turned into the worst global economic crisis since the Great Depression.

*Understanding the Financial Crisis* aims to bring to students an exploratory account of the crisis with GLOBAL PERSPECTIVES and an understanding of the conceptual underpinnings of the issues that lie at the heart of it. The course will focus on how the current financial crisis began, how it developed, how the different countries dealt with it with their own politico-economic means and measures, what are the effects on people, and what is its implication for the global economy, and its broader ramifications for our society.

### Course Intended Learning Outcomes (CILOs)

On completing the course, students will be able to, with GLOBAL PERSPECTIVES:

1. Describe the socio-economic background and the possible causes for the financial crisis and explain how the crisis through the different financial and economic channels can reinforce itself and affect other economies in the world with GLOBAL PERSPECTIVES.
2. Formulate critical questions and reflections regarding issues of economic development against an understanding that very often our efforts to respond to one problem might lay the foundations for the next.

3. Critically evaluate the effectiveness of the various government policies for the rescue of the faltering economy and assess how these policies in one country can impact others in the global economy with GLOBAL PERSPECTIVES.
4. Understand that the elimination of crises, if possible at all, is very costly and hence why crises will almost certainly recur.
5. Assess how the current crisis and the so-called “Currency War” will form and shape the future path of growth and development for the global economy with GLOBAL PERSPECTIVES.

Program ILOs	Course ILOs
Acquisition and internalization of knowledge of economics & finance	CILO1, CILO2, CILO3, CILO4, CILO5
Application and integration of knowledge	CILO2, CILO3, CILO4
Developing global outlook	CILO3, CILO4, CILO5
Mastering communication skills	CILO1, CILO2, CILO3, CILO4, CILO5

## Textbook and Reading Materials

There is no required textbook for this course. Reading materials for all topics will be handed out in class and will also be posted on the HKU website for the course. Students are responsible for all materials.

### 1. Required Readings with GLOBAL PERSPECTIVES

The following cases and reading materials will be assigned. The list will be updated as deemed appropriate.

- Alan Greenspan, “The Crisis” Brookings Papers on Economic Activity, Spring 2010
- Julio J. Rotemberg, “Subprime Meltdown: American Housing and Global Financial Turmoil”, Harvard Business School Case, 2008
- V.G. Narayanan, Fabrizio Ferri, Lisa Brem, “The Credit Crisis of 2008: An Overview”, Harvard Business School Case 2010
- David Moss and Cole Bolton, “Fighting a Dangerous Financial Fire: The Federal Response to the Crisis of 2007-2009”, Harvard Business School Case 2011
- John Mathis, Frank Tuzzolino, Venkat Ramaswamy, “Global Financial Crises and the Future of Securitization”, Harvard Business School Case, 2011
- Dante Roscini, Jonathan Schlefer, Konstantinos Dimitriou, “The Greek Crisis: Tragedy or Opportunity”, Harvard Business School Case, 2011
- Benn Steil, “Lessons of the Financial Crisis”, Council Special Report No. 45 March 2009, Center for Goeconomic Studies
- Huw Pill, Rafael Di Tella, Jonathan Schlefer, “Financial Crisis in Asia: 1997-1998”, Harvard Business School Case 2008
- Arthur I Segel and Ben Creo, “Understanding the Credit Crisis of 2007-2008”, Harvard Business School Background Note 2010
- Joshua Coval, Jakub Jurek, and Erik Stafford, “The Economics of Structured Finance”, Journal of Economic Perspectives Vol 23, Winter 2009, 3-25.

- Fedetic S. Mishkin, “Is Monetary Policy Effective during Financial Crises?” American Economic Review, Papers and Proceedings 2009, 99:2, 573-577

## 2. Recommended Readings

- 13 Bankers: The Wall Street Takeover and the Next Financial Meltdown, SIMON JOHNSON and JAMES KWAK, Vintage Books, 2011.
- “Global Financial Stability Report: Grappling with Crisis Legacies”, International Monetary Fund, September 2011

## 3. Recommended Website(s)

- “Financial Markets”, Open Yale Course by Robert Shiller, Chapters 25 and 26 on Learning from and Responding to Financial Crisis, <http://academicearth.org/courses/financial-markets>.
- “Of subprimes and subsidies: The political economy of the financial crisis.” Bardhan, A. 2008. <http://ssrn.com/abstract=1270196>
- How did economists get it so wrong? Paul Krugman, September 02, 2009, New York Times. <http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?scp=1&sq=how%20did%20economists%20get%20it%20so%20wrong?%20krugman&st=cse>

## Timetable

Date	Topic	Reading Assignments
Sep 02	Introduction	Lecture notes
Sep 09	Bubbles and Crashes	Lecture notes
Sep 16	Causes and Global Consequences of the Crisis	Lecture notes
Sep 23	Comparing this Crisis with others	Lecture notes
Sep 30	Process of Securitization	Lecture notes
Oct 07	Risk Mismanagement, Regulatory Issues and Institutional Failures	Lecture notes
Oct 14	Reading Week	
Oct 21	Double Ninth Festival	
Oct 28	Government Policies Dealing with the Crisis	Lecture notes
Nov 04	Implications of the Crisis for the Global Economy	Lecture notes
Nov 11	Implications of the Crisis for Asia and China	Lecture notes
Nov 18	Currency War	Lecture notes
Nov 25	Financial and Economic Solutions	Lecture notes

## Part I: Overview of the Crisis with GLOBAL PERSPECTIVES

- **Causes and Global Consequences of the Crisis**
  - Alan Greenspan, “The Crisis” Brookings Papers on Economic Activity, Spring 2010
  - Julio J. Rotemberg, “Subprime Meltdown: American Housing and Global Financial Turmoil”, Harvard Business School Case, 2008
  - V.G. Narayanan, Fabrizio Ferri, Lisa Brem, “The Credit Crisis of 2008: An Overview”, Harvard Business School Case 2010

- Huw Pill, Rafael Di Tella, Jonathan Schlefer, “Financial Crisis in Asia: 1997-1998”, Harvard Business School Case 2008
- Arthur I Segel and Ben Creo, “Understanding the Credit Crisis of 2007-2008”, Harvard Business School Background Note 2010

## Part II: On Market Failures

- **Process of Securitization**
  - John Mathis, Frank Tuzzolino, Venkat Ramaswamy, “Global Financial Crises and the Future of Securitization”, Harvard Business School Case, 2011
  - Joshua Coval, Jakub Jurek, and Erik Stafford, “The Economics of Structured Finance”, Journal of Economic Perspectives Vol 23, Winter 2009, 3-25.
- **Risk Management and Mismanagement Issues**
- **Regulatory Problems**
- **Institutional Failures**

## Part III: On Response Policies and their Impacts with GLOBAL PERSPECTIVES

- **Fiscal and Monetary Policy Dealing with the Crisis**
  - David Moss and Cole Bolton, “Fighting a Dangerous Financial Fire: The Federal Response to the Crisis of 2007-2009”, Harvard Business School Case 2011
  - Fedetic S. Mishkin, “Is Monetary Policy Effective during Financial Crises?” American Economic Review, Papers and Proceedings 2009, 99:2, 573-577

## Part IV: On The Way Forward with GLOBAL PERSPECTIVES

- **Implications of the Crisis for the Global Economy**
  - “Global Financial Stability Report: Grappling with Crisis Legacies”, International Monetary Fund, September 2011
  - Dante Roscini, Jonathan Schlefer, Konstantinos Dimitriou, “The Greek Crisis: Tragedy or Opportunity”, Harvard Business School Case, 2011
- **Implications of Financial Crisis for Asia and China**
- **Financial and Economic Solutions**

## Assessment Tasks

Assessment Method	Brief details of Assignment	Weighting
Class participation and tutorial discussions	Students are expected to share, debate, and evaluate issues raised in class as well as in the assigned cases.	10%
Homework and case summaries	Cases are required of all students to read and prepare for discussion in class and in the tutorials. Homework will also be assigned to ensure that students understand the fundamental issues discussed in class.	30%

Group project presentation	Student will be required to work in small groups of six on a project that they choose relevant for the course topics. The presentation encourages students to formulate and communicate their ideas effectively and to put across their point of view in a professional and convincing style.	30%
Take-home test	Take-home exam will test students on their understanding of the key issues discussed in the course.	30%

## Performance Assessment

Grade	Descriptors
A+ A A-	<ul style="list-style-type: none"> <li>All aspects were addressed and researched in great depth.</li> <li>Demonstrates a clear understanding of and the ability to apply and theory, concepts and issues relating to the topic.</li> <li>Able to clearly identify the most critical aspects of the task and adopt a critical perspective.</li> <li>Excellent development of argument and offers a logically consistent and well-articulated analysis and insight into the subject.</li> <li>Draws widely from the academic literature and elsewhere whilst maintaining relevance</li> <li>All aspects conform to a high academic / professional standard</li> </ul>
B+ B B-	<ul style="list-style-type: none"> <li>Most aspects were addressed and researched in depth.</li> <li>Demonstrates a good understanding and some application of the theory and issues relating to the topic.</li> <li>Able to identify critical aspects of the task and adopt a critical perspective.</li> <li>Some evidence of analysis, supported by logical argument and insight into the subject.</li> <li>Draws on relevant academic and other material.</li> <li>Most aspects conform to a high academic / professional standard.</li> </ul>
C+ C C-	<ul style="list-style-type: none"> <li>Most aspects were addressed and researched adequately.</li> <li>Demonstrates a good understanding of the theory, concepts and issues relating to the topic but limited application relating to the topic.</li> <li>Some argument presented showing some insight but not always consistent and logical.</li> <li>Draws upon an adequate range of academic and other material</li> <li>Most aspects conform to an acceptable academic / professional standard.</li> </ul>
D	<ul style="list-style-type: none"> <li>Basic aspects were addressed and researched adequately.</li> <li>Demonstrates mainly description, showing basic understanding of the topic but no application.</li> <li>Little evidence of analysis but no clear and logical argument relating to the subject.</li> <li>Draws primarily upon course materials.</li> <li>Limited aspects conform to academic / professional standards.</li> </ul>
F	<ul style="list-style-type: none"> <li>Basic aspects were superficial, inadequate or absent.</li> <li>Demonstrates limited understanding of the topic and draws conclusions unrelated to the topic.</li> <li>The written work is not of an academic / professional standard."</li> </ul>

## Academic Honesty and Integrity

The University Regulations on academic dishonesty will be strictly enforced. Please check the University Statement on plagiarism on <http://www.hku.hk/plagiarism/>.

**Cheating or plagiarism of any kind would result in an automatic F grade for the course plus strict enforcement of all Faculty and/or University regulations regarding such behavior. Incident(s) of academic dishonesty will NOT be tolerated.**

Academic dishonesty is a behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

- a. Plagiarism - The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.
- b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort.
- c. Cheating on In-Class Exams - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.
- d. Unauthorized Advance Access to an Exam - The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.