

The Financial Meltdown and Beyond

Econ 385R

MW 3:45-5:25 p.m. Seney 208

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Office Hours: M-Th 1:00-1:40 p.m.

In Econ 385R, the Financial Meltdown, you will examine the most profound economic event(s) to occur in the United States in a lifetime. The financial crisis which culminated in the injection of huge amounts of taxpayer money during August 2008 into the banking system represents a most interesting point of departure from the swell of free market sentiment and deregulatory policy dating back to the Regan era.

The recession triggered by this financial collapse spread to many parts of the world. Termed by many as the Great Recession the recent series of events conjures images of the Great Depression stemming from the 1929 stock market collapse. This course will examine the various events and practices which collectively created what some refer to as a “perfect storm” suggesting it is a unique occurrence whereas others suggest this sort of financial crisis is rather common globally and throughout history—an expected artifact of the deregulatory forces which removed institutions and practices instated during the Roosevelt era.

The two primary objectives of the course are a) to demonstrate an understanding of the events that transpired and the financial instruments and which were engineered which allowed unprecedented leveraging by investment and commercial banks and b) to conduct a metalevel critique framing the episodes examined as a function of cyclical trends in the ideology of imposing regulation upon the financial industry. The first objective will be achieved using readings, videos, and lecture presentations. The second objective will be allowed by video projects which examine in some depth some aspect of the events which can be framed in the conversation of cyclicity of regulation. These two objectives constitute my motivation for offering the course to undergraduate students—allowing students to see the role of orthodoxy or belief systems regarding the appropriate role of markets in our economic institutions and have the students engage notions of free/unbridled versus regulated markets in discussions of this pivotal series of episodes in U.S. economic history.

There will be two exams and a final project (PPP). The PPP will consist of a Paper, Project (video) and Presentation. Each student will write a 5-page research paper as well as an in-class summary Presentation to stimulate class discussions on the various topics. The Project (video) is an 8 minute video crafted by groups of up to 4 students. The exams will count 30% each and the PPP will account for the remaining course grade.

Honor Code: Students should review the honor code and especially understand the aspect of the code pertaining to plagiarism. I’ve worked with the honor council in the past and am woefully

aware that students do not have a grasp of the various ways they may “unintentionally” plagiarize an assignment.

Week 1 August 29-31

Form Groups

Discussion of ideology regarding the role and regulation of markets.

Milton Friedman video—[Greed and Capitalism](#)

Bill Gates- [Creative Capitalism](#)

Dalai Lama – [Capitalism, Socialism and Income Inequality](#)

Ann Klein—Disaster Capitalism

Krugman, Paul. (2009, September 6). How Did Economists Get It So Wrong? *The New York Times*. Retrieved from [http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?\\_r=1&ref=paulkrugman](http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?_r=1&ref=paulkrugman)

Week 2 September 3-7

NPR [The Giant Pool of Money](#)

Monetary policy: All at sea? | *The Economist*. (August 2005). Retrieved August 18, 2010, from <http://www.economist.com.proxy.library.emory.edu/node/4274986>

In-class viewing of *The Financial Meltdown*

Week 3 (Labor Day- one class) – September 10-14

Lecture- components of the “perfect storm”

housing bubble

non-regulatory environment (efficient market hypothesis)

banker’s short-run compensation schema

dramatic inflow of foreign capital

willingness of households to dissave

befuddling financial securitization (derivatives)

extended period of low interest rates (Greenspan)

Learning from History—In-class viewing of *The Crash of 29*

What 1907 Can Teach Us About 2007 | Robert Bruner | Big Think. (n.d.). <http://bigthink.com/ideas/24910>

Week 4 September 17-21

**Subprime**

Christopher Mayer, Karen Pence, and Shane M Sherlund, "The Rise in Mortgage Defaults," *Journal of Economic Perspectives* 23, no. 1 (January 2009): 27-50.  
<http://www.aeaweb.org/articles.php?doi=10.1257/jep.23.1.27>

Buttonwood: With a pffftfffft or a fizzle | *The Economist*. (November 2005). Retrieved August 18, 2010, from <http://www.economist.com.proxy.library.emory.edu/node/5132938>

Mortgage lending: Subprime subsidence | *The Economist*. (December 2006). . Retrieved August 18, 2010, from <http://www.economist.com.proxy.library.emory.edu/node/8424086>

Alan Greenspan on the Subprime situation. 1) YouTube -Greenspan On Housing Crisis - 60 Minutes - CBS News. (n.d.). . Retrieved September 12, 2010, from <http://www.cbsnews.com/video/watch/?id=3265944n>  
2) YouTube - Greenspan Admits The Federal Reserve Is Above The Law – Lehrer News Hour Interview <http://www.youtube.com/watch?v=ol3mEe8TH7w&NR=1>

"Markets at Midyear 2007 - Subprime Mortgages | Nightly Business Report | PBS Video," n.d., <http://video.pbs.org/video/1535998378/>

"August 11, 2010 | Current Efforts to Curtail Foreclosures ; Nightly Business Report | PBS Video," n.d., <http://video.pbs.org/video/1564508696/?starttime=500130>.

Week 5 September 24-28

### **Securitization- Structured Finance**

The Economics of Structured Finance. Joshua Coval, Jakub Jurek, and Erik Stafford;  
*Journal of Economic Perspectives*—Volume 23, Number 1—Winter 2009—  
Pages 3–25

YouTube - Mortgage-Backed Securities I. (n.d.). . Retrieved September 3, 2010, from <http://www.youtube.com/watch?v=oosYQHq2hwE&p=945E4F0ED131E4D1&index=5>

YouTube - Mortgage-backed securities II. (n.d.). . Retrieved September 3, 2010, from <http://www.youtube.com/watch?v=eYBlfxGIk28&feature=channel>

YouTube - Mortgage-backed securities III. (n.d.). . Retrieved September 3, 2010, from <http://www.youtube.com/watch?v=q0oSKmC3Mfc&p=945E4F0ED131E4D1&playnext=1>

YouTube - Collateralized Debt Obligation (CDO). (n.d.). . Retrieved September 3, 2010, from <http://www.youtube.com/watch?v=XjoJ9UF2hgg&p=945E4F0ED131E4D1&index=8>

YouTube – CDO and CDO<sup>2</sup> Crisis explainer with Champagne metaphor  
[http://www.youtube.com/watch?v=eb\\_R1-PqRrw&feature=player\\_embedded](http://www.youtube.com/watch?v=eb_R1-PqRrw&feature=player_embedded)

YouTube - Credit Default Swaps I. (n.d.). . Retrieved September 3, 2010, from  
<http://www.youtube.com/watch?v=a11VOO9Y080>

YouTube - Credit Default Swaps 2. (n.d.). . Retrieved September 3, 2010, from  
<http://www.youtube.com/watch?v=neAFEvNsiqw&feature=channel>

How Wall Street Made The Mortgage Crisis Worse : Planet Money : NPR. (n.d.). . Retrieved September 17, 2010, from  
<http://www.npr.org/blogs/money/2010/08/26/129454550/inside-the-sausage-factory-how-wall-street-made-the-financial-crisis-worse>

### **The Rating Agencies**

Lawrence J. White, “THE CREDIT-RATING AGENCIES AND THE SUBPRIME DEBACLE,” *Critical Review* 21, no. 2-3 (January 2009): 389-399.  
<http://www.tandfonline.com/doi/abs/10.1080/08913810902974964>

White, Lawrence J.. 2010. "Markets: The Credit Rating Agencies." *Journal of Economic Perspectives*, 24(2): 211–26.” (n.d.).

“America’s AAA Rating Is Cut in Land of Bubbles: William Pesek - BusinessWeek,”  
<http://www.businessweek.com/news/2010-07-19/america-s-aaa-rating-is-cut-in-land-of-bubbles-william-pesek.html>.

Lawrence White on the Credit Rating Agencies on Vimeo. (n.d.). . Retrieved September 19, 2010, from <http://vimeo.com/9963155>

## **Week 6 October 1-5**

### **Deregulation and Reregulation**

#### **Deregulation**

**The Great Depression and Roosevelt era regulation/ Regan era deregulation**

Glass-Steagall 1933

Commercial Banking vs. Investment Banking

DIDMCA and Modernization/focus on free markets and no regulation

“Glass-Steagall crash course - Video - Business News,” n.d.,  
[http://money.cnn.com/video/news/2010/02/02/n\\_bz\\_glass\\_steagall.cnnmoney/](http://money.cnn.com/video/news/2010/02/02/n_bz_glass_steagall.cnnmoney/).

### **Re-regulation**

PBS NewsHour |Consumer Czar Elizabeth Warren PBS. (n.d.). Retrieved October 6, 2010, from <http://www.pbs.org/newshour/video/module.html?mod=0&pkg=5102010&seg=4>

Senate Passes Financial Reform Bill - ABC News. (n.d.). Retrieved October 6, 2010, from <http://abcnews.go.com/WN/senate-passes-financial-reform-bill/story?id=10713917>

Does bank reform go far enough—the case of AIG. n.d.). Retrieved October 6, 2010, from <http://www.msnbc.msn.com/id/21134540/vp/37264906#37264906>

FRONTLINE: the warning: video timeline on deregulation | PBS,”  
<http://www.pbs.org/wgbh/pages/frontline/warning/cron/>.

YouTube - Greenspan on Regulation and Ideology. (n.d.). Retrieved September 12, 2010, from <http://www.youtube.com/watch?v=R5lZPWNFizQ&feature=related>

The Bailout – the bubble bursts and systemic risk revealed

Market.view: Not so creditable | *The Economist*. (July 2007). Retrieved August 18, 2010, from <http://www.economist.com.proxy.library.emory.edu/node/9533247>

Week 7 October 8-12

### **Freddie Mac/ Fannie Mae**

Frame, W. S., & White, L. J. (2005). Fussing and Fuming over Fannie and Freddie: How Much Smoke, How Much Fire? *Journal of Economic Perspectives*, 19(2), 159-184. doi:[10.1257/0895330054048687](https://doi.org/10.1257/0895330054048687)

“What to do with Fannie and Freddie | Marketplace From American Public Media”, n.d.,  
<http://marketplace.publicradio.org/display/web/2011/04/07/pm-the-problems-with-fannie-mae-freddie-mac/>

Fannie Mae and Freddie Mac: End of illusions | *The Economist*. (July 2008). Retrieved August 18, 2010, from <http://www.economist.com.proxy.library.emory.edu/node/11751139>

“A brief family history: Toxic fudge, Fannie and Freddie | The Economist,”  
<http://www.economist.com/node/11751146>.

“Conservatorship--Fannie Mae and Freddie Mac Government Bailout,”  
[http://www.mortgagenewsdaily.com/09082008\\_Fannie\\_Freddie\\_Bailout.asp](http://www.mortgagenewsdaily.com/09082008_Fannie_Freddie_Bailout.asp).

“YouTube - Scott Garrett Unveils Fannie Freddie Plan on CNBC's Squawk Box,”  
<http://www.youtube.com/watch?v=2fUt4eP7QGA>.

Fannie Mae and the Financial Crisis - Video Library - The New York Times. (n.d.). .  
Retrieved October 3, 2010, from  
<http://video.nytimes.com/video/2008/10/05/business/1194821078821/fannie-mae-and-the-financial-crisis.html>

Center for Freedom and Prosperity Foundation; Government Intervention, Regulatory  
Policy, and the Financial Crisis on Yahoo! Video. (n.d.). . Retrieved October 3,  
2010, from <http://video.yahoo.com/watch/4729269/12632048>

Lehman Brothers

“Sept 15 Lehman Brothers To File For Bankruptcy; Bank Of America To Buy Merrill  
Lynch; AIG Seeks \$40 Billion Fed Bridge Loan,”  
<http://www.youtube.com/watch?v=tHdu3VUv6XU>.

“Dick Fuld Testimony on Lehman’s Demise - CNBC.com,”  
<http://www.cnbc.com/id/15840232?play=1&video=879787807>.

## **AIG**

The Case of AIG—market or casino?—Credit Default Swaps

Stulz, Rene M.. 2010. "Credit Default Swaps and the Credit Crisis." *Journal of Economic Perspectives*, 24(1): 73–92..

Financial Weapons of Mass Destruction - 60 Minutes - CBS News. (n.d.). . Retrieved  
October 3, 2010, from <http://www.cbsnews.com/video/watch/?id=5274961n&tag=related:photovideo>

TARP

PBS NewsHour – Paul Solomon on Credit default swaps. | PBS. (n.d.). . Retrieved  
October 3, 2010, from <http://www.pbs.org/newshour/video/module.html?mod=0&pkg=7102008&seg=3>

## **TARP**

Treasurys-tarp-aig-bailout-costs-fall-to-30-billion: Personal Finance News from Yahoo!  
Finance. (n.d.). . Retrieved October 6, 2010, from  
<http://finance.yahoo.com/banking-budgeting/article/110920/exclusive-treasurys-tarp-aig-bailout-costs-fall-to-30-billion?mod=bb-budgeting>

Week 8- October 15-19

Exam 1- October 17

Week 9 October 22-26

Contagion- U.S. exports its first financial crisis since the Great Depression

A survey of international banking: Sources and acknowledgments | *The Economist*. (May 2008 from [http://www.economist.com.proxy.library.emory.edu/node/11325361?story\\_id=11325361](http://www.economist.com.proxy.library.emory.edu/node/11325361?story_id=11325361)

America Becomes Angry

No Bailout for Homeowners

[PBS Series on Florida Foreclosures](#)

[PBS Series on Government Hearings on Foreclosures](#)

**Modifying delinquent loans: Mortgage mistakes | *The Economist*. (July 2009).**  
**Retrieved August 24, 2010, <http://www.economist.com.proxy.library.emory.edu/node/13998732>**

**The Foreclosure Moratorium**

“‘Robo-Signing’ Paperwork Breakdown Leaves Many Houses in Foreclosure Limbo | PBS NewsHour | Oct. 6, 2010 | PBS,”  
[http://www.pbs.org/newshour/bb/business/july-dec10/foreclosures\\_10-06.html](http://www.pbs.org/newshour/bb/business/july-dec10/foreclosures_10-06.html).

“‘Would a U.S. Foreclosure Ban Yield ‘Catastrophic’ Consequences?’ | PBS NewsHour | Oct. 11, 2010 | PBS,” [http://www.pbs.org/newshour/bb/business/july-dec10/foreclosure\\_10-11.html](http://www.pbs.org/newshour/bb/business/july-dec10/foreclosure_10-11.html).

“‘The Housing Mess - ABC News,’” <http://abcnews.go.com/WNT/video/housing-mess-real-estate-foreclosure-banks-economy-11798904>.

Embattled homeowner to bank: You don't own my loan,”  
[http://cnnmoney.mobi/wk\\_snarticle?articleId=urn:newsml:CNNMoney.com:20101012:foreclosure\\_MERS:1&category=cnm\\_business](http://cnnmoney.mobi/wk_snarticle?articleId=urn:newsml:CNNMoney.com:20101012:foreclosure_MERS:1&category=cnm_business).

**The Future of Investment Banking**

“Investment banking: The big squeeze | *The Economist*,”  
<http://www.economist.com/node/17202243>.

Week 10 October 29-November 2

The Fed Response

Wessel pp. 1-66

Weekend of September `12-14 2008

BBC Lehman Brothers Bankruptcy Video | Break.com. (n.d.). . Retrieved October 22, 2010, from <http://www.break.com/usercontent/2008/9/Lehman-Brothers-Bankruptcy-571880.html>

Bernanke on Lehman Bankruptcy - CNBC.com. (n.d.). . Retrieved October 22, 2010, from <http://www.cnbc.com/id/15840232?play=1&video=1473801267>

Paulson Says Lehman Bailout Was Never an Option. (n.d.). . Retrieved October 24, 2010, from <http://www.youtube.com/watch?v=7nn8N0W903M>

History of the Fed

NPR Panic of 1907 . Retrieved October 24, 2010, from <http://www.npr.org/player/v2/mediaPlayer.html?action=1&t=1&islist=false&id=14004846&m=14004811>

What Greenspan Wrought

Alan Greenspan defends himself. (n.d.). . Retrieved October 24, 2010, from [http://www.youtube.com/watch?v=m6b4qX\\_qm40](http://www.youtube.com/watch?v=m6b4qX_qm40)

*TimesTalks: Paul Krugman: Is Greenspan Responsible?* (2009). . Retrieved from [http://www.youtube.com/watch?v=JIeVu8NUKD4&feature=youtube\\_gdata\\_player](http://www.youtube.com/watch?v=JIeVu8NUKD4&feature=youtube_gdata_player)

Wessel pp. 67-123

Who is Ben Bernanke

PBS Bernanke on the Record. Retrieved October 24, 2010, from <http://www.pbs.org/newshour/video/share.html?s=news01pa98>

The Great Panic Begins August 2007

Bernanke, Kohn Warsh, and Geithner

The Fed's First Response to the Great Panic

Week 11 November 5-9

Wessel pp. 124- 187

How the Fed got behind then caught up

Bear Stearns- the first rescue

Taking over Freddie Mac and Fannie Mae

Wessel pp. 188-276

The fallout from AIG and Lehman goes to congress



Forcing taxpayer capital on the banks  
The Fed gets rates to zero  
Did Bernanke keep his promise to Friedman?

Week 12 November 12-16

The Broader Economic Picture

Rogoff Part V- The U.S. Subprime Meltdown and the Second Great Contraction pp. 199-247

Week 13- November 19-23

Presentations

Week 14 November 26-30

Presentations

Week 15 December 3-7

Presentations

Week 16: December 10-11

Review/Course Evaluation

December 12- Reading Day

### **Finance Basics**

Bonds

Bond Basics: Yield, Price And Other Confusion. (n.d.). . Retrieved August 27, 2010, from <http://www.investopedia.com/university/bonds/bonds3.asp>

### **Potpourri**

Timeline: A Year Of Financial Crisis : NPR. (n.d.). . Retrieved August 27, 2010, from

<http://www.npr.org/templates/story/story.php?storyId=112538025>

This site allows you to listen to the several NPR stories broadcast for many of the important stories of 2008/2009 regarding the crisis.

Should naked Credit Default Swaps be made illegal—does this solely speculative market exacerbate the problems for entities who are in trouble—such as Greece?

The Fed created a number of institutions which it did not have the expressed authority to create—done under the claim of exegis, was the Fed's behavior unethical and/or illegal?

## Compensation Schema

Buttonwood: Paying the price | *The Economist*. (July 2010). Retrieve August 2010, from [http://www.economist.com.proxy.library.emory.edu/research/articlesBySubject/displaystory.cfm?subjectid=348885&story\\_id=16702073#footnote1](http://www.economist.com.proxy.library.emory.edu/research/articlesBySubject/displaystory.cfm?subjectid=348885&story_id=16702073#footnote1)

Mishkin, F. S. (2011). Over the Cliff: From the Subprime to the Global Financial Crisis. *Journal of Economic Perspectives*, 25(1), 49-70. doi:10.1257/jep.25.1.49