

The Financial Meltdown

Econ 385R

MW 2:00-3:15 p.m. Seney 322

Dr. Frank Maddox

770-784-8357

fmaddox@emory.edu

Office Hours: M-Th 1:00-2:00 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 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 will further 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 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 25th

Stiglitz – preface

Form Groups

Discussion of ideology regarding the role and regulation of markets and student self-test to form groups for the semester.

Stiglitz xii ... about a battle of idea....

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

Week 2 August 30

Stiglitz—The Making of a Crisis—Freefall and its Aftermath pp.1-57

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 6-10

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*

Week 4 September 13-17

Stiglitz- The Mortgage Scam pp. 77-108

Buttonwood: With a pffft 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>

Week 5 September 20-24

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

The Rating Agencies

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

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

Week 6 September 27- October 1

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

The Warning—At issue, regulators chose not to use their regulatory authority.

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>

Stiglitz- The Great American Robbery pp. 109-146

Week 7 October 4-8

Stiglitz- Critique of Banking System- Avarice Triumphs over Prudence pp. 147-183

Bear-Stearns

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)
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>
Lehman Brothers
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..
[PBS Series on Credit Default Swaps](#)
TARP

Week 8- October 11-15 (fall break 11-12)
Exam 1- October 13

Week 9 October 18-22
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)

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>

Week 10 October 25 -29
The Fed Response
Wessel pp. 1-66
Weekend of September `12-14 2008
History of the Fed
What Greenspan Wrought
Wessel pp. 67-123
Who is Ben Bernanke
The Great Panic Begins August 2007
Bernanke, Kohn Warsh, and Geithner
The Fed's First Response to the Great Panic

Week 11 November 1-5
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 8-12

The Broader Economic Picture
Rogoff Part V- The U.S. Subprime Meltdown and the Second Great Contraction pp. 199-247
Stiglitz pp. 184-297

Week 13- November 15-19

Presentations

Week 14 November 22- 26

Presentations

Week 15 November 29-December 3

Presentations

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>

Resources

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?