

[Preliminary Syllabus as of March 7, 2012]

The Financial Crisis of 2007 to 2009

June 2012

Fudan University

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This class examines the global financial crisis of 2007 to 2009 and policy response using the analytic tools of finance, economics, and accounting. The U.S. and global economies have witnessed the most severe macroeconomic event since the 1930's. The crisis involved massive changes in financial markets and led to large-scale policy interventions, including public investments in banks, guarantees for large classes of assets, and subsidies for private homeowners facing foreclosure. The course will consider the workings of financial markets before the crisis, assess the impact of the crisis, and then analyze the policy response to stabilize markets and the economy. The focus will be on the United States—the course instructor was a senior official at the U.S. Treasury Department during the crisis—but the course will discuss events in other countries and (especially) draw out implications for the current situation in Europe and potential future problems in other regions. Implications for the role of China in the world economy and China's future economic and financial market policy will be considered as well.

Classes 1 and 2 will provide an overview of the crisis and then consider the world before the crisis—bond markets, banks, and the U.S. financial regulatory system. Class 3 will then examine the conduct of monetary policy, looking first at traditional monetary policy and then at the extraordinary measures taken in the United States during the crisis. Classes 4 and 5 will examine the extraordinary fiscal and quasi-fiscal policies undertaken, notably including the TARP capital injections into banks. Class 5 will also consider several interventions in major U.S. banks. Class 6 will conclude with a look forward at the financial system after the crisis and changes in the U.S. and global regulatory regime. Implications for other countries, including China, will be discussed as well.

Class 1: Wednesday, June 6, 6:30-9pm: Introduction; review of bond markets and banking

Class 2: Thursday, June 7, 6:30-9pm: Securitization and shadow banking; bank regulation

Class 3: Monday, June 11, 9-11:30am: central banking before the crisis, monetary policy in crisis

Class 4: Tuesday, June 12, 6:30-9pm: Fed and Treasury actions during crisis, including the TARP

Class 5: Wednesday, June 13: 6:30-9pm: class 4 continued; Interventions at Banks and other firms

Class 6: Thursday, June 14: 9-11:30am Preventing future crises including financial regulatory reform

A final paper will be assigned at class 5 and due on Monday, June 25. You will send your paper to me by email at pswagel@umd.edu.

Readings

I will distribute PPT slides for each class.

*** = Required reading – we will discuss this in class

* = Optional reading – extra if you want to learn more, but not required

Class 1: Introduction and review of bond markets and banking

1. *** Chairman Ben Bernanke, August 21, 2009, “Reflections on a Year of Crisis.”
<http://www.federalreserve.gov/newsevents/speech/bernanke20090821a.htm>
2. *** Chairman Ben S. Bernanke, March 20, 2006, “Reflections on the Yield Curve and Monetary Policy,” <http://www.federalreserve.gov/newsevents/speech/Bernanke20060320a.htm>
3. * “Financial Crisis Inquiry: Dissenting Statement of Commissioners Keith Hennessey, Douglas Holtz-Eakin, and Bill Thomas,”
http://cybercemetery.unt.edu/archive/fcic/20110310173538/http://c0182732.cdn1.cloudfiles.rackspacecloud.com/fcic_final_report_hennessey_holtz-eakin_thomas_dissent.pdf
4. * Phillip Swagel, “The Financial Crisis: An Inside View,” April 2009
http://www.brookings.edu/economics/bpea/~media/Files/Programs/ES/BPEA/2009_spring_bpea_papers/2009_spring_bpea_swagel.pdf

Class 2: Securitization and Shadow Banking; Bank Regulation

1. *** “Deciphering the liquidity and credit crunch 2007-08,” Markus Brunnermeier, 2009.
"Deciphering the Liquidity and Credit Crunch 2007-2008." Journal of Economic Perspectives, 23(1): 77–100. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.23.1.77>
2. *** “Financial Regulation and the Invisible Hand,” Chairman Ben S. Bernanke, April 11, 2007.
<http://www.federalreserve.gov/newsevents/speech/bernanke20070411a.htm>
3. * “Haircuts” Metrick, Andrew and Gorton, Gary B., (August 11, 2009). Yale ICF Working Paper No. 09-15. Available at SSRN: <http://ssrn.com/abstract=1447438> or www.nber.org/papers/w15273.pdf

Class 3: Monetary Policy

1. *** “The Federal Reserve's Policy Actions during the Financial Crisis and Lessons for the Future,” Vice Chairman Donald L. Kohn, May 13, 2010,
<http://www.federalreserve.gov/newsevents/speech/kohn20100513a.htm>
2. * “Deflation: Making Sure ‘It’ Doesn't Happen Here,” Remarks by Governor Ben S. Bernanke Washington, D.C., November 21, 2002.
<http://www.federalreserve.gov/Boarddocs/Speeches/2002/20021121/default.htm>
3. * Forms of Federal Reserve Lending to Financial Institutions
http://www.newyorkfed.org/markets/Forms_of_Fed_Lending.pdf

Classes 4 and 5: The Collapse – Fed and Treasury Actions During the Crisis

1. *** “A Year of Living Dangerously: The Management of the Financial Crisis in 2008,” Vincent Reinhart, Journal of Economic Perspectives—Volume 25, Number 1—Winter 2011—Pages 71–90. <http://pubs.aeaweb.org/doi/pdf/10.1257/jep.25.1.71>
2. *** “Over the Cliff: From the Subprime to the Global Financial Crisis,” Frederic S. Mishkin, Journal of Economic Perspectives—Volume 25, Number 1—Winter 2011—Pages 49–70. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.25.1.49>
3. * Krishnamurthy, Arvind 2010. "How Debt Markets Have Malfunctioned in the Crisis." Journal of Economic Perspectives, 24(1): 3–28. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.1.3>
4. * The Rise and Fall of Jimmy Cayne, by William Cohan, Fortune Magazine: http://money.cnn.com/2008/07/31/magazines/fortune/rise_and_fall_Cayne_cohan.fortune/index.htm
5. * A Legislative Proposal for Treasury Authority to Purchase Mortgage-Related Assets, (the original 3 page proposal) http://money.cnn.com/2008/09/20/news/economy/treasury_proposal/index.htm
6. * Summary of the Capital Purchase Program (CPP) <http://www.financialstability.gov/roadtostability/CPFactsheet.htm>

Class 6: Preventing Future Crises and Implications for Other Countries

1. *** “Lessons from the Crisis Stress Tests, Daniel K. Tarullo, March 26, 2010, <http://www.federalreserve.gov/newsevents/speech/tarullo20100326a.htm>
2. *** Hanson, Samuel G., Anil K. Kashyap, and Jeremy C. Stein. 2011. "A Macroprudential Approach to Financial Regulation." Journal of Economic Perspectives, 25(1): 3–28. <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.25.1.3>
3. * “Economic Challenges: Past, Present, and Future,” Ben Bernanke, April 7, 2010, <http://www.federalreserve.gov/newsevents/speech/20100407a.htm>
4. * Crisis Management and Resolution: Early Lessons from the Financial Crisis,” IMF Staff Discussion Note, March 09, 2011, SDN/11/05, Stijn Claessens, Ceyla Pazarbasioglu, Luc Laeven, Marc Dobler, Fabian Valencia, Oana Nedelescu, and Katharine Seal, <http://www.imf.org/external/pubs/ft/sdn/2011/sdn1105.pdf>

The textbook by former Fed Governor Frederic S. Mishkin, The Economics of Money, Banking, and Financial Markets provides additional background on bond markets, banks, and monetary policy.