

AoC II, „Financial Markets and Financial Crises“

Syllabus

1. General Information

Class	Thursday 11 – 13 h
Venue	Seminar Room 2.32
Convener	Henrik Enderlein / Christoph Trebesch
Office	Friedrichstraße 180, Room 2.13
Telephone	(030) 259 219 130
E-Mail	enderlein@hertie-school.org christoph.trebesch@fu-berlin.de
Office Hours	HE: Wednesday 15 - 16 and by appointment CT: Thursday 13-14 and by appointment

2. Aim of the Course

The goal of the seminar is to provide a thorough understanding of (i) financial markets and their functioning, (ii) market failures and financial crises, (iii) crises prevention and market regulation. We will start with a focus on rationality, bounded rationality and behavioral finance before looking at the main financial market instruments: bonds, stock, derivatives and their interaction. We will then study different types of currency crises, banking crises, stock market crashes, and sovereign debt crises. The last part of the seminar will look at policy measures, crisis prevention, the international financial architecture and a detailed analysis of the ongoing financial crises. During the whole semester, a strong emphasis will be put on following current developments in financial markets.

While there are no formal prerequisites for the class, it is best suited for second year students or first year students with some background in economics. Having said this, curiosity and interest in studying the topics are even more important than this.

3. Requirements & Grading

Each student will have to do all the required readings (including a daily read of the FT) and (i) manage his or her own virtual asset portfolio during the semester, (ii) do one of the weekly briefings on current issues in class, (iii) provide a 2-page fact-sheet on the case, **due on 9 April in class, copy for all participants**, (iv) write a 15p policy paper in relation to the current financial crisis, **due on 17 May** (by email).

Grading scheme:

Participation: 30%

Oral Briefing on Current Issues: 15%

2-page fact-sheet: 15%

Final Paper: 40%

Rules on turning in assignments late

If turned in up to 24h after deadline: Grade based on 80%

If turned in up to one week late: Grade based on 66%

If turned in more than one week late: 0%

Laptops have to be closed during the session.

4. General Readings:

Frederic S. Mishkin (2004) *The Economics of Money, Banking, and Financial Markets*, 7th Edition, Addison Wesley.

6. Overview

Please note that this schedule is indicative only. Depending on the time needed to wrap-up a topic, I will adjust the schedule as appropriate.

Week	Date	Topic
#1	29.01.2009	Introduction
#2	NEW: Wednesday 04.02.2009 (4pm-6pm)	Instruments / Overview of the Financial System a) Bonds b) Stocks c) Derivatives d) Rules of investment (CAPM) PRESS REVIEW: Florian
#3	12.02.2009	Rationality and Behavioural Finance a) Expected utility theory b) Rationality, bounded rationality c) Behavioral finance PRESS REVIEW: Sophia
#4	19.02.2009	Crises, Crashes and Busts a) History b) Typologies PRESS REVIEW: Grzegorz
#5	26.02.2009	Banking and banking crises, regulation a) How do banks operate b) Patterns of banking crises

		PRESS REVIEW: Lukas
#6	05.03.2009	Foreign exchange markets, currency crises: three generations a) Krugman model (first generation) b) ERM crisis c) Twin crises PRESS REVIEW: Michael
#7	12.03.2009	Third generation currency crises and beyond a) Asian crisis b) Contagion PRESS REVIEW: Yvonne
#8	19.03.2009	Sovereign debt markets and crises a) How do governments raise money b) Cross-border lending c) When and why do governments default? PRESS REVIEW: Dania
#9	26.03.2009	How are debt crises resolved? a) Current debt crisis resolution (Iceland, Equador, Ukraine...) b) Debt relief (is it beneficial?) PRESS REVIEW: Yana
#10	02.04.2009	Global imbalances 1999-2009 a) Why and how? b) Bretton Woods II? PRESS REVIEW: Makaio
#11	09.04.2009	The current financial crisis (I) a) Understanding the banking crisis b) What went wrong? PRESS REVIEW: Christopher (normal review) and Mary (special coverage of G20 meeting in London on 2 April)
#12	23.04.2009	The current financial crisis (II) a) Central bank interventions b) Government reactions, rescue packages PRESS REVIEW: Ha (09-16 April), Sebastian (16-23 April)
#13	30.04.2009	Banking regulation a) Basel II and beyond PRESS REVIEW: Jacek
#14	07.05.2009	Global financial architecture a) G8, G20, BIS, FSF b) Agenda for global coordination

PRESS REVIEW: Alexandru

*7. Detailed Schedule (readings preceded by * are required readings)*

#1	29.01.2009	Introduction
#2	WEDNESDAY 04.02.2009 (4pm-6pm)	<p>Instruments / Overview of the Financial System</p> <p>a) Bonds b) Stocks c) Derivatives d) Rules of investment (CAPM)</p> <p>- * Mishkin, Chapters 2, 4, 5, 6, 13</p> <p>- Perold, André F. (2004). "The Capital Asset Pricing Model." <i>Journal of Economic Perspectives</i>, 18(3): 3–24.</p>
#3	12.02.2009	<p>Rationality and Behavioural Finance</p> <p>a) Expected utility theory b) Rationality, bounded rationality c) Behavioral finance</p> <p>- * Barberis, Nicholas and Richard Thaler (2002). "A survey of behavioral finance." in G. Constantinides, M. Harris, and R. Stulz (editors) <i>Handbook of the Economics of Finance</i> North-Holland, Amsterdam</p> <p>- *Mishkin, Chapter 7</p> <p>- Jay R. Ritter (2003) "Behavioral Finance" (Brief Introduction)</p>
#4	19.02.2009	<p>Crises, Crashes and Busts</p> <p>a) History b) Typologies</p> <p>- * Bordo, Michael, Eichengreen Barry, Klingebiel, Daniela and Maria Soledad Martinez-Peria (2001). "Is the crisis problem growing more severe?" <i>Economic Policy</i>, 16(32), pages 51-82, 04.</p> <p>- * Reinhart, Carmen M. and Kenneth S. Rogoff (2008). "This Time is Different: A Panoramic View of Eight Centuries of Financial Crises," NBER Working Paper 13882.</p> <p>- Bordo, Michael (2003). "Stock Market Crashes, Productivity Boom Busts and Recessions: Some Historical Evidence." (Background paper for the IMF World Economic Outlook 2003)</p> <p>- Romain Ranci�re, Aaron Tornell and Frank Westermann, (2008). "Systemic Crises and Growth." <i>Quarterly Journal of Economics</i>, vol. 123(1), pp. 359-406.</p>
#5	26.02.2009	<p>Banking and banking crises</p> <p>a) How do banks operate</p>

		<p>b) Patterns of banking crises</p> <ul style="list-style-type: none"> - * Mishkin Chapters 9, 10 <p>* One of the following two:</p> <ul style="list-style-type: none"> - Reinhart, Carmen M. and Kenneth S. Rogoff (2008). "Banking Crises: An Equal Opportunity Menace," NBER Working Paper 14587. - Gerard Caprio and Patrick Honohan (2008). "Banking Crises," IIS Working Paper 242. <ul style="list-style-type: none"> - Review: Laeven, Luc and Fabian Valencia (2008). "Systemic Banking Crises: A New Database," IMF Working Paper 08/224.
#6	05.03.2009	<p>Foreign exchange markets, currency crises: three generations</p> <p>a) Krugman model (first generation) b) ERM crisis c) Twin crises</p> <ul style="list-style-type: none"> - * Mishkin: Review Chapter 19, 20 - *Saxena, Sweta C. (2004). "The changing nature of currency crises." <i>Journal of Economic Surveys</i>, vol. 18(3). - Review: Frankel, Jeffrey A. (1999). "No single currency regime is right for all countries or at all times". <i>NBER Working Paper # 7338</i> - Kaminsky, Graciela L. and Carmen M. Reinhart (1999). "The Twin Crises: The Causes of Banking and Balance-of-Payments Problems," <i>American Economic Review</i>, vol. 89(3), pp. 473-500. - Krugman, Paul (1979), "A Model of Balance-of-Payment Crises", <i>Journal of Money, Credit and Banking</i>, vol. 11, pp. 311-325. - Obstfeld, Maurice (1996) Models of Currency Crises with Self-Fulfilling Features. <i>European Economic Review</i> vol. 40, pp. 1037-1047.
#7	12.03.2009	<p>Third generation currency crises and beyond</p> <p>a) Asian crisis b) Contagion</p> <ul style="list-style-type: none"> - *Kaminsky, Graciela L., Reinhart, Carmen M. and Carlos A. Vegh, (2003). "The Unholy Trinity of Financial Contagion," <i>Journal of Economic Perspectives</i>, vol. 17(4), pp. 51-74. - *Mishkin, Frederic. S. (1999). "Lessons From the Asian Crisis." <i>Journal of International Money and Finance</i>, vol. 18 (4), pp. 709-723. - *Dornbusch, Rudiger, Park, Yung Chul and Stijn Claessens (2000). "Contagion: Understanding How It Spreads", <i>World Bank Research Observer</i>, vol. 15, pp. 177-977. - Jeanne, Olivier and Jeromin Zettelmeyer (2002), ""Original Sin", Balance Sheet Crises, and the Roles of International Lending", IMF Working Paper, 02/234.

#8	19.03.2009	<p>Sovereign debt markets and crises</p> <p>a) How do governments raise money b) Cross-border lending c) When and why do governments default?</p> <ul style="list-style-type: none"> - * Hatchondo, Juan Carlos, Martinez, Leonardo and Horacio Saprizza (2007). "The economics of sovereign defaults," <i>Economic Quarterly</i>, Federal Reserve Bank of Richmond, Sept., pages 163-187. - * IMF and World Bank (2003). "Guidelines for Public Debt Management" (read pages 1-19, review rest) - * Eichengreen, Barry, Hausmann, Ricardo and Ugo Panizza (2003). "Currency Mismatches, Debt Intolerance and Original Sin: Why They are Not the Same and Why it Matters", NBER Working Paper No. 10036
#9	26.03.2009	<p>How are debt crises resolved?</p> <p>a) Current debt crisis resolution (Iceland, Ecuador, Ukraine...) b) Debt relief (is it beneficial?)</p> <ul style="list-style-type: none"> - * Panizza, Ugo, Sturzenegger, Federico and Jeromin Zettelmeyer (forthcoming). "The Economics and Law of Sovereign Default", forthcoming, <i>Journal of Economic Literature</i>. - * Serkan Arslanalp and Peter Blair Henry (2006). "Policy Watch: Debt Relief," <i>Journal of Economic Perspectives</i>, vol. 20(1), pp. 207-220. - Roubini, Nouriel and Brad Setser (2004). „The Reform of the Sovereign Debt Restructuring Process: Problems, Proposed Solutions and the Argentine Episode“ - Enderlein, Henrik, Müller, Laura and Trebesch, Christoph (2008). "Debt Disputes: Measuring Government Coerciveness in Sovereign Debt Crises"
#10	02.04.2009	<p>Global imbalances 1999-2009</p> <p>a) Why and how? b) Bretton Woods II?</p> <ul style="list-style-type: none"> - * Ferguson, Niall, and Moritz Schularick (2007). "'Chimerica' and Global Asset Markets." <i>International Finance</i>, vol 10 (3), pp. 215-239. - * Obstfeld, Maurice and Kenneth Rogoff (2005). "Global Current Account Imbalances and Exchange Rate Adjustments," <i>Brookings Papers on Economic Activity</i>, Vol. 1, pp. 67–123 - Review: Chapter 3 „IMF World Economic Outlook, April 2005“ Title: "Globalization and External Imbalances“. - Chapter 2 „IMF World Economic Outlook, September 2002, Title: "How Worrisome are External Imbalances?"
#11	09.04.2009	<p>The current financial crisis (I)</p> <p>CASE FACTSHEETS ARE DUE!</p>

		<p>a) Understanding the banking crisis b) What went wrong?</p> <ul style="list-style-type: none"> - *Carmen M. Reinhart and Kenneth S. Rogoff (2009). "The Aftermath of Financial Crises" Forthcoming in <i>American Economic Review P&P</i> - *Current texts to be announced - ECB Financial Stability Report Dec. 2008 (Review Only) http://www.ecb.int/pub/pdf/other/financialstabilityreview200812en.pdf - International Monetary Fund: Oct 2008 IMF GFSR (Review Only) http://www.imf.org/external/pubs/ft/gfsr/2008/02/pdf/text.pdf
#12	23.04.2009	<p>The current financial crisis (II)</p> <p>a) Central bank interventions b) Government reactions, rescue packages</p> <ul style="list-style-type: none"> - * Spilimbergo, Antonio, Symansky, Steve, Blanchard, Olivier and Cottarelli Carlo (2008). "Fiscal Policy for the Crisis" IMF Staff Position Note, December 29, 2008 - * Current texts to be announced - Calomiris, Charles, Laeven, Luc and Daniela Klingebiel (2005). "Financial Crisis Policies and Resolution Mechanisms: A Taxonomy from Cross-Country Experience" In: Patrick Honohan and Luc Laeven (Eds.), <i>Systemic Financial Distress: Containment and Resolution</i>, Cambridge: Cambridge University Press.
#13	30.04.2009	<p>Consequences 1: Banking regulation and beyond</p> <ul style="list-style-type: none"> - Background Reading: Mishkin, Chapter 11 - * Santos, João A.C. (2000). "Bank Capital Regulation in Contemporary Banking Theory: A Review of the Literature." BIS Working Paper Nr. 90. http://www.biz.org/publ/work90.pdf - * Barth, James R Caprio, Gerard and Ross Levine (2004) "Bank regulation and supervision: what works best?" <i>Journal of Financial Intermediation</i> vol. 13, pp. 205–248. - * Geneva Report by Brunnermeier, Crocket, Goodhart, Persaud and Shin (2009). "The Fundamental Principles of Financial Regulation"
#14	07.05.2009	<p>Consequences 2: Global financial architecture and beyond</p> <p>a) G8, G20, BIS, FSF b) Agenda for global coordination</p> <ul style="list-style-type: none"> - Eichengreen, Barry and Richard Baldwin (eds) (2008), "Rescuing our jobs and savings: What G20 leaders must do to stabilise our economy and fix the financial system" http://voxeu.org/index.php?q=node/2545 - VoxEU.org (2009) "Global Crisis Debate" http://www.voxeu.org/index.php?q=node/2911

8. Paper Topics

Banking rescue packages (discussions, implementation, assessment)

- US: **Mary**
- Germany: **Jacek**
- France
- UK **Michael**
- Spain (what went right?) **Yvonne**

Fiscal stimulus packages (discussions, implementation, assessment)

- US: **Sebastian**
- Germany: **Dania**
- France: **Christopher**
- UK: **Florian**

Country challenges

- China:
- Japan:
- Ukraine: **Grzegorz**
- Hungary: **Yana**
- Russia: **Lukas**
- Argentina: **Makaio**
- Ireland:
- Iceland: **Alexandru**

Academic/Policy discussions

- How to design a stimulus package: **Ha**
- How to save the banking system: **Sophia**
- Monetary policy in the crisis: