

FINC-UB.11.1.040.WI11
THE FINANCIAL CRISIS OF 2007-2009:
CAUSES, SOLUTIONS and REGULATION

NEW YORK UNIVERSITY, STERN SCHOOL

Syllabus

Winter Intensive 2011

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Course Description

This course describes the causes leading up to the financial crisis of 2007-2009, the events of the crisis, and the resulting financial legislation enacted in the aftermath. The focus of the course will be on understanding the economics of what happened, and on providing a critical analysis of the legislation that now impacts financial markets and the broader economy.

The NYU Stern School has spent the better part of the last three years investigating the financial crisis, producing three books, “Restoring Financial Stability: How to Repair a Failed System”, “Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance” and “Guaranteed to Fail: Fannie Mae, Freddie Mac and the Debacle of Mortgage Finance”. It is very clear that the financial crisis, through the legislation alone, will have an impact for years to come. Given NYU Stern is at the forefront of this debate, students will have exposure to state of the art research.

Course Materials

The main course material can be broken down into three sets:

First, a collection of presentation slides to be used in each lecture. Second, a number of lengthy readings that should be read prior to the start of the course. Third, the required books include two of NYU Stern's work.

ONLINE MATERIAL

A. *The Financial Crisis Inquiry Report (2011)*

<http://www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>

B. *A Bird's Eye View - The Financial Crisis of 2007-2009: Causes and Remedies*
Prologue, Restoring Financial Stability: How to Repair a Failed System (Wiley, 2009) [Emailed, Blackboard]

C. *The Orderly Liquidation of Lehman Brothers Holdings Inc. under the Dodd-Frank Act*

http://www.fdic.gov/bank/analytical/quarterly/2011_vol5_2/lehman.pdf

D. *Dodd-Frank Wall Street Reform and Consumer Protection Act*

<http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf>

BOOKS

A. *Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance* (Wiley 2010)

B. *Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance* (Princeton Press, 2011)

These books are available on Amazon and similar online sites.

BECAUSE OF THE SHORT TIMELINE OF THE COURSE, THE READING FOR THE FIRST WEEK SHOULD BE COMPLETED PRIOR TO TAKING THE COURSE. IN FACT, IT WOULD BE A GOOD IDEA TO ALSO STRAT THE READING FOR THE SECOND WEEK PRIOR TO CLASS.

NOTE: THERE IS A LARGE AMOUNT OF READING MATERIAL!

Course Requirements

Because the class involves a small group of students, class participation will play an important part in student evaluation. The key part of this participation is that students have completed the reading prior to class and can engage in debate with the other students.

In addition, there will be one assignment. The assignment will be presented during the last week of class. Students will be given the task of taking a particular section of the Dodd-Frank Act and arguing the advantages/disadvantages of the Act's provision. The students need to focus in particular on how this part of Dodd-Frank will either help prevent or manage a future financial crisis.

TENTATIVE LIST of TOPICS

WEEK 1

Reading:

The Financial Crisis Inquiry Report (2011)

A Bird's Eye View - The Financial Crisis of 2007-2009: Causes and Remedies
Prologue, Restoring Financial Stability: How to Repair a Failed System (Wiley, 2009)

Guaranteed to Fail: Fannie Mae, Freddie Mac, and the Debacle of Mortgage Finance (Princeton Press, 2011)

January 3rd, 1pm-5pm: Historical Perspective of Financial Crises

The first part of the week will cover a brief history of past financial crises with a special emphasis on the factors that led to the crisis and the various solutions that were adopted afterwards. Of particular importance, an analysis of these solutions will be discussed and debated. The lecture emphasizes the evolution of the financial system after the Great Depression through the next 70 years. The lecture will focus on how the system changed post 1980s and how regulation responded (or not as the case may be) to these changes. This part of the course covers the various factors leading to the financial crisis, including both macro- and micro-based explanations, as well as the market and regulatory failures that existed. As a specific example, the final part of the lecture will dissect the history of housing finance and show its direct role and contribution to the financial crisis of 2007-2009.

January 4th, 1pm-5pm: Causes of the Financial Crisis of 2007-2009

Along with the causes of the financial crisis, the topic will describe in detail what transpired and why the financial and economic system broke down. The baseline material for this important section of the course is the report by the Financial Crisis Inquiry Commission. The topic will continue a detailed analysis of the role of mortgage finance, the banking sector and too-big-to-fail firms, shadow banking (e.g., money market funds,

asset-backed conduits, investment banks, hedge funds, etc...), the rating agencies and the market for OTC derivatives.

January 5th, 1pm-3pm: Solutions to the Financial Crisis of 2007-2009

Using the first few lectures as a backdrop, the first part of this lecture lays out potential solutions to the financial crisis of 2007-2009. The lecture will serve as a preliminary analysis of the principles needed for financial crisis prevention and resolution, and will serve as source material for the analysis of the Dodd-Frank Act the following week.

January 5th, 3pm-5pm: The Euro Crisis

Because of the timeliness of the topic, and its relation to the financial crisis of 2007-2009, the last part of the day will be spent analyzing the Euro crisis. The class will start with the formation of the Euro, how and why there is a Euro crisis, a comparative history of monetary union and how the economic system developed in the United States, a discussion of the principles necessary for the Eurozone to succeed and what the Eurozone might look like years from now.

WEEK 2

Reading:

The Orderly Liquidation of Lehman Brothers Holdings Inc. under the Dodd-Frank Act

Dodd-Frank Wall Street Reform and Consumer Protection Act

Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance (Wiley 2010)

January 10th, 1pm-5pm: Financial Institutions and Markets

This section of the course returns to the financial crisis of 2007-2009. The lecture provides a bridge between the causes of the financial crisis, the financial institutions and markets that operate within the system and the ensuing financial regulation, namely the Dodd-Frank Act of 2010. Special focus of this class will be on systemic risk, too-big-to-fail companies and resolution mechanisms. (*Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance (Wiley 2010)*) (Prologue, Chapters 4-9)

January 11th, 1-5pm: The Dodd-Frank Legislation

The segment of the course deals with the provisions of the Dodd-Frank Act of 2010. The course will describe the Act and the motivation behind various provisions, its likelihood of success versus failure, and its overall impact on financial stability and the economy in general. The baseline material for this part of the course will be the Dodd-Frank Act itself and the NYU Stern book *Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance (Wiley 2010)* (Prologue, Chapters 2-3, 10-13, 15, 17)

January 12th , 1-5pm: The Consequences of the Dodd-Frank Legislation

The segment of the course deals with the intended and unintended consequences of the Dodd-Frank Act of 2010. Because students will be providing their own analysis of various provisions of the Act the following week, this lecture will take a few examples and develop them in detail.

WEEK 3

January 17^h – 19th , 1-5pm: Presentations of Projects

ASSIGNMENT – The Dodd-Frank Act

Each student must write an essay of 2500 words or less, consisting of two parts. The first part should be 1,000 words or less and involves a general discussion of a specific section/provision of the Dodd-Frank Act and must at least address the following three points:

A.

1. Describe the particular provision of the Dodd-frank Act?
2. What is the specific purpose of this section of the Dodd-Frank Act?
3. How is this provision meant to either prevent or resolve future crises?

The second part should provide a critical analysis of the provision of the Dodd-Frank Act, focusing on three aspects:

B.

1. What are the advantages and disadvantages of this particular provision?
2. Describe a scenario in which this provision is likely to fail.
3. Outline at least one negative unintended consequence of the provision.

Students need to notify me of the particular provision of the Dodd-Frank Act they are choosing to analyze.

During this week, students will put together a powerpoint presentation for the class. Other students should be ready and willing to respond to each presentation with their own questions and analysis.

Grades are based on the written assignment, the powerpoint presentation, and class participation throughout the three weeks.

With respect to the assignment, grades will be based on the completeness of the analysis and sound logic of the assignment. It is imperative that students footnote all sources. Any data provided to support their case will not count against the 2,500 word limit but, to the extent, it adds to the analysis, grades will reflect this effort. Also, the written assignments should be completed on their own. The students are free to use whatever material they wish as long as it is sourced.