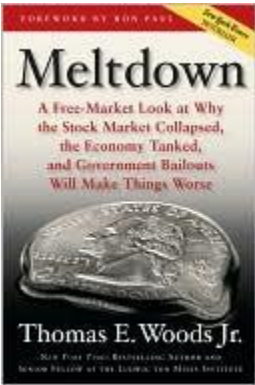
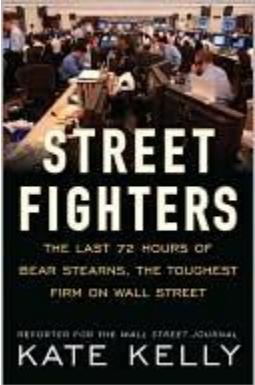


WHITWORTH UNIVERSITY
SCHOOL OF GLOBAL COMMERCE AND MANAGEMENT
DEPARTMENT OF ECONOMICS & BUSINESS

<p>COURSE 411</p>	<p style="text-align: center;"><u>GLOBAL ECONOMIC CRISIS</u></p> <p style="text-align: center;">Core 350 Unit II Fall 2009</p> <p style="text-align: center;">10/20 – 11/12 Tues. & Thurs. 12:50 – 2:10, Hawthorne Hall 105 Wed. 3:15 – 4:10, Weyerhaeuser Hall 203</p>
<p>REQUIRED READINGS</p>  	<ol style="list-style-type: none"> 1. Thomas E. Woods, Jr., <i>Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked and Government Bailouts will Make Things Worse</i> (2009) 2. Kate Kelly, <i>Street Fighters: The Last 72 Hours of Bear Stearns, the Toughest Firm on Wall Street</i> (2009) 3. <i>Materials distributed in class or electronically</i> (including links to online media). Because of the recent and still-unfolding nature of the subject matter of this course, some materials will be distributed as the class progresses, not at the beginning of the term. These materials, whether provided by the instructor or other class participants, are assigned material. 4. Additionally, read the business section of a <i>national newspaper each day</i> or by some other means stay conversant with events related to the unfolding financial turmoil.
<p>INSTRUCTOR CONTACT INFO.</p>	<p style="text-align: center;">Prof. Walter Hutchens whutchens@whitworth.edu Weyerhaeuser 301E (509) 777-4442 office (509) 280-4922 mobile</p>
<p>OFFICE HOURS</p>	<p style="text-align: center;">By appointment</p>

INTRODUCTION

This course examines the recent global financial crisis and its repercussions. We will explore five interrelated and complex questions:

1) What are the origins of the crisis?

We will examine what private parties, government bodies, transactions, laws and policies are involved in creating the global financial turmoil. We will learn, for example: what are Ninja loans? Government service entities (GSE's)? Collateralized debt obligations (CDO's)? Credit default swaps (CDS's)? We will learn about the U.S. regulation of banks and other financial institutions, mortgage lending, mortgage securitization, and derivatives. We will learn details about the pre-crisis history of key individual and institutional actors (who is Henry Paulson? Timothy Geithner? Ben Bernake? Alan Greenspan? What do investment banks do, anyway?). We will examine what effects, if any, sub-prime lending and the "housing bubble" had in the Spokane economy. This "descriptive" portion of the course will enable us to talk intelligently about other aspects of the crisis.

2) Who deserves blame for the crisis?

This is an analytical dimension of the first question concerning the origins of the crisis. We will ask, given our understanding of the underlying transactions and events: whose acts or omissions caused this crisis? Some political rhetoric has lambasted "greed and corruption on Wall Street." Is that a sufficient explanation? Who, exactly, was greedy and corrupt and acting in a way that nearly triggered a global financial meltdown? What did they do, exactly? Besides some financiers or investment bankers, might anyone else have culpability? Lenders? Regulators? Investors? Consumers? Who benefited from the conditions leading up to the crisis? Trying to assign and apportion blame will help us sharpen our historic understanding and also help us address a subsequent question: what ought to be done now?

3) What bad things have occurred because of this crisis?

We are in the midst of a deep global economic contraction that directly affects the well-being of much of humanity. Millions of people have lost jobs and been forced out of their homes. Vast sums of wealth have been wiped out. The U.S. national debt has ballooned to an unprecedented level. More than a hundred banks have failed. Some of the most venerable Wall Street firms have disappeared. We will try to identify and understand these and other harms arising from the economic crisis. We will examine the ongoing retrenchment of mortgage lending and the resulting "negative feedback loop" with respect to housing prices. We will examine the tightening or freezing of non-consumer credit markets such as inter-bank lending and commercial paper. We will examine the demise of Bear Stearns, Merrill Lynch, Lehman Brothers, Washington Mutual, Countrywide, Indy Mac and other financial institutions.

4) What measures have been taken to halt the crisis and address the harms it has caused?

Having better understood these harms, we will examine measures that have been taken as the crisis has unfolded. We will learn, for example, about JPMorgan Chase's acquisition of Bear Stearns; the U.S. government take-overs of Fannie Mae, Freddie Mac and, effectively, AIG; the SEC's ban on the short-selling certain securities; and the joint action of a number of central banks in different countries to lower interest rates and the actions of the Federal Reserve System (the "Fed") to intervene in the economy to halt the crisis or mitigate its harms). We will examine in detail the debates leading up to passage of the \$787 billion American Recovery and Reinvestment Act authorizing the US Treasury to spend \$700 billion on "distressed assets" and subsequent exercise of that authority. We will examine other US government responses. We will go beyond a cursory headline identification of these events.

We will study the knock-on effects as this "contagion" has spread around the world, identifying and evaluating what government authorities and private actors outside the US have suffered and done in response.

5) What has been proposed to avoid this happening again; what *ought* to be done going forward?

What legal and policy responses are in order to avoid a similar crisis in the future? Many are calling for an overhaul of financial regulation. It has been widely claimed that de-regulation of the financial sector created or contributed to this crisis. Conversely, others suggest that government policies that distort markets are actually root causes of the crisis. Some insist mechanisms for greater global cooperation, not just changes in national laws, are needed to avert similar problems in the future in our globalized economy. We will grapple with these issues and examine the emerging debates.

6) How will the world change as a result of all this?

We will also consider whether this crisis may be a watershed event in term of American economic models and our international "soft" power and prestige, looking at the likely economic, political, regulatory and cultural repercussions of the crisis.

7) What, if anything, can we learn from historic and contemporary parallels?

This is not the world's first bubble, panic or global financial strain. Can we learn anything from the 1929 crash and the Great Depression that sheds light on this crisis? From the 1987 crash? From the bursting in 2000-2002 of the "dot com" bubble? From the bankruptcies of Enron and WorldCom? What about Japan's post-bubble recession? The Swedish housing crisis? How are these and even earlier bubbles, panics, scams or meltdowns similar to or different from the current financial turmoil? Are massive disruptions inevitable? If so, can citizens and political or business leaders see them coming in time to prevent them?

COURSE REQUIREMENTS

Item	Percentage	Points
1. Individual Project—Research assigned topic, make presentation to class about it & lead discussion.	50%	15 pts
2. Overall Class Participation (especially participation when <i>not</i> assigned to be a presenter for a particular session)	25%	7.5 pts
3. Quizzes & Daily Assignments	15%	4.5 pts
4. Final Exam	10%	3 pts
TOTAL	100%	30 pts

NOTES

- Many other courses in your undergraduate experience attempt to transmit to you an overview of a relatively static body of knowledge or train you in the basics of a particular academic discipline. This is not one of those courses. The subject of this seminar is a complex, critical phenomenon whose causes and ramifications are still emerging. To study it, flexibility is required. Sometimes—perhaps often—we will be uncertain concerning the full implications of topics under discussion. This syllabus may be revised during the course. All participants—including the professor—will be learning as we go. The schedule will undoubtedly change some. Be flexible and gracious to yourself and others.
- This course is a **seminar**, *not* a series of lectures. Successful seminars require several things. First, each participant **must be actively engaged**, not just sit in the room to passively absorb information from others. You need to be present mentally as well as physically; please do not randomly surf,

update your FaceBook profile, “text” friends or play solitaire during class. ☺

Active participation means that you **must speak during class**, even if you are not among the day’s assigned presenters. However, speaking during class does not require that you always offer profound insights—it can mean simply asking a question about an unclear point or speculating about the further implications of someone else’s observations. Good participation, especially in this class, can also mean bringing up newsworthy events related to the topics at hand. The kind of active participation desired does *not*, of course, include dominating the discussion to the exclusion of others.

A successful seminar also requires that participants have something to talk *about* which in turn requires that you **come to class prepared**. If you do not prepare for class, less learning occurs and class meetings are much less fun. Without adequate participation, you diminish not only your own learning but also the opportunities the rest of us have to benefit from your perspective. Therefore, **preparation for every class is a basic course requirement**. In order to participate effectively, you must read the assigned materials before each class and bring to class your book(s) and other materials for reference. You must be diligent about completing the assigned readings (and going above and beyond the assigned material at least when you will be leading the discussion of a topic). You will need to **read several hours a week** outside of class. If you consistently fail to actively participate and come to class prepared, you can fail the class, even if you complete your Individual Project, quizzes, final exam or other assessed work.

- We will compile a **list of topics** relevant to our exploration of the ongoing global financial crisis. You will read something about all of these topics as a seminar participant. You will research at least one topic in greater depth for your **Individual Project**. I will attempt to assign you your preferred topic, though the list will be spread across the class and you may need to tackle a topic to which you were not initially attracted.
- When making your **class presentation** on a particular topic, you should summarize the assigned reading (which you will have yourself chosen), but you should also offer observations about the topic beyond merely summarizing the assigned reading. Provide us with a solid introduction to the topic. After your presentation, we should feel that we have a good handle on the topic, that we know more than we did and more than the average person does. You may give us additional, deeper questions, but we should not feel more confused about the basics of the topic than before your presentation. Cover the who, what, when and where. You might also suggest what actors could or should have done differently and mention whether subsequent events may have changed any analysis provided in the assigned material. You may wish to make connections between the material you are discussing and other material discussed in the seminar. You may ask questions of other seminar participants, play media clips, use PowerPoint or other visual aids. You should not artificially stretch the topic to fill any prescribed time requirement, but making an adequate presentation will generally take 15-20 minutes, including some time for discussion and questions. This requirement, however, is somewhat elastic depending on the specific case and how class discussions unfold. Some days have more presenters than others; you should plan accordingly.
- By the end of the seminar perhaps you will have formulated views regarding the most appropriate measures governments or other actors should take in response to the current financial crisis. In any case, you will at least have a deeper understanding of what is happening, and you will have practiced applying your pre-professional and liberal arts education to critical contemporary issue.
- **Class participation grades** will be assigned based on the professor’s judgment regarding the quantity and quality of your participation. Attendance is required but attendance alone does not constitute sufficient class participation, even on the days when you are not assigned to make a presentation. You may volunteer to speak in class **and may also be called upon**. Failure to attend

and robustly participate in class discussion will negatively affect your grade and could result in failure.

- This course, like life, is a collaborative enterprise. It is not cheating to discuss the material with others, share drafts of your work with others and receive feedback from them or enrich your written or oral submissions by drawing on other sources. All that is, of course, encouraged. However, you must have actually yourself done any work you claim to have done, and you must acknowledge all sources of information, ideas and words that you have not yourself generated. Whitworth students generally do not cheat, and both as a matter of principle and fairness to those students who do not give or receive unauthorized help, I cannot tolerate any **academic dishonesty**. All acts of academic dishonesty will be dealt with severely. To be clear, *if you get caught cheating, you are likely to fail*. Let's avoid any such nastiness.
- I try to respond to email and voice messages the day they are received. However, I am unlikely to respond to unduly cryptic messages and, as a rule, email from non-Whitworth addresses unless it is abundantly clear who sent the message. Thus, whenever feasible please use your Whitworth email account and identify yourself. Especially if you must send me an email from a business or personal account, please specify who you are and what class you are in when you communicate with me. Even for our relatively small discussion section, I sometimes cannot fathom who "badabing36116" is or what it means when that mysterious correspondent asks "did I miss anything today?"
- I want this class to be as beneficial as possible to you. If you have suggestions about how it might be improved, by all means let me know. We can make mid-stream adjustments if those will enhance the course.
- While I do not anticipate any radical changes to the course requirements or basic schedule, I remind you that education, especially in business and especially for this course, is carried out in a dynamic context. I therefore reserve the right, as events unfold in the world around us, to adjust this syllabus. Any changes will of course be promptly and clearly communicated to you.
- Any student with special needs should bring this to the instructor's attention soon as possible and contact the Educational Support Office (extension 4-534) to arrange any appropriate accommodations.
- My hope is that you will approach the course as an opportunity to **learn as much as you can**, not attempt to do as little as possible to get by.
- Best wishes for a helpful and intellectually enriching experience. I am looking forward to getting to know you better and learning with you about the ongoing global financial crisis.

TENTATIVE SCHEDULE

Day	Date	Topic	Presenter
Tues.	10/20	Course Intro. & Overview Dream House Exercise	Prof. Hutchens
Wed.	10/21	Traditional Mortgages, Subprime Variations & Securitization <i>It's a Wonderful Life</i> excerpts (George's argument to board justifying B&L's business practices and certain loans ("sentimental hogwash," says Potter), bank run, Martini housewarming)	Prof. Hutchens
Thurs.	10/22	Traditional Mortgages, Subprime Variations & Securitization Broad Framework (7 questions) <i>This American Life</i> —"The Global Pool of Money" episode	Prof. Hutchens
Tues.	10/27	Review—Dream Houses to Global Meltdown Local Impact—Parental Survey Identification of Specific Topics	Prof. Hutchens
Wed.	10/28	Discussion of <i>Meltdown</i> (also Peer Evaluation exercise) The Fed	Prof. Hutchens Dr. Schatz
Thurs.	10/29	Discussion of <i>Street Fighters</i>	Prof. Hutchens
Tues.	11/03	Student Presentations	
		1. Mark to Market Accounting	[student name redacted]
		2. Broken Firms—Fannie Mae, Freddie Mac & their bailout	[student name redacted]
		3. American International Group (AIG) & Credit Default Swaps	[student name redacted]
		4. FDIC & Failed Commercial Banks—WaMu, IndyMac, & 100 Friends	[student name redacted]
Wed.	11/04	5. Fed. & Bios of Allen Greenspan, Ben Bernanke	[student name redacted]
		6. Treasury & Bios of Henry Paulson, Timothy Geithner & Neel Kashkari	[student name redacted]
		7. \$700 Billion Bailout Bill—Troubled Assets Relief Program (TARP), the Emergency Economic Stabilization Act	[student name redacted]
Thurs.	11/05	8. Investment Banking, Financial Services & Glass-Steagall	[student name redacted]
		9. Hedge Funds & Qualified Investors	[student name redacted]
		10. Commercial Paper & Credit Freeze (spillover effect)	[student name redacted]
		11. Derivatives. ABS, MBS, CDO, etc.	[student name redacted]
Tues.	11/10	12. Broken Firms—Lehman Brothers	[student name redacted]
		13. Global Impact—Europe, Asia, Iceland	[student name redacted]
		14. Credit Rating Agencies—Role & Possible Reforms	[student name redacted]
		15. Auto Industry Bailout	[student name redacted]
Wed.	11/11	16. Where We Are Now—the Bailout Tally, Economic Indicators—LIBOR, TED Spread, Fed Rates, TBills & Actual Mortgage Rates, Unemployment, National Debt, USD, Gold, Inflation	[student name redacted]
		17. Examining the Impact—Higher Ed., Less Advantaged Communities	[student name redacted]
Thurs.	11/12	18. Comparison to Past Panics, Manias, Crashes	[student name redacted]
		19. Debating the Future—Impact on US Prestige/Influence, Have we become a Bailout Nation?	[student name redacted]
		20. Financial Market Regulation—Proposals & Debates	[student name redacted]
		Final Exam	
<i>Policy Paper Deadline—5:00 pm Friday 13 Nov. 2009</i>			