



SUFFOLK
UNIVERSITY

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Sawyer School of Management

FIN H550- The Global Financial Crisis: Causes, Economics and Solutions
Fall 2009

Instructor: Michael J. Eisenstein
Room: [Sawyer School of Management Room 040]
Course: The Global Financial Crisis
Number: FIN H550
Time: [Thursday] 7:15 to 9:55
Office Hours: By Appointment, Refer to Availability Section
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I. Welcome

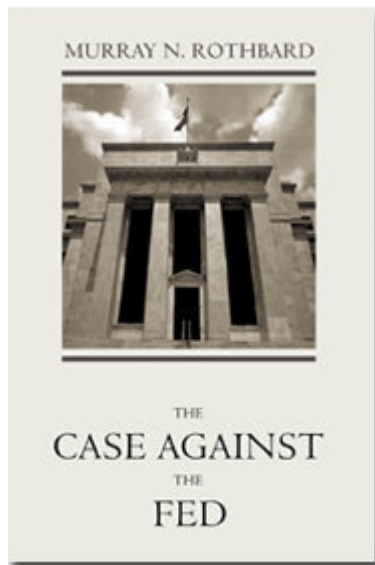
Welcome to FIN 550- The Global Financial Crisis: Causes, Economics and Solutions. I look forward to spending the semester together working through complex financial theories and engaging in intellectually stimulating dialogue and debate. This is an advanced course covering extremely sophisticated, contemporary material and I expect all students to plan accordingly. Please read through this Syllabus in detail as it contains an overview of our assignments, objectives and timeline.

II. Course Catalogue Description

This course analyzes the origins and consequences of the current financial situation from a variety of different economic and political perspectives. It offers students the opportunity to explore the chain of events that preceded the global financial crisis, monitor markets on a real-time basis using Bloomberg and provides a forum to discuss solutions and independent generate ideas. Among the main topics covered are asset pricing, derivative securities, financial engineering, risk management and the role of financial institutions, central banks and government agencies in global markets. This course requires comprehensive knowledge of financial theory and principles, global money and capital market securities and the economics of financial markets.

III. Required Text & Materials

There are two texts required for this course.



“The Case Against the Fed”, by Murray N. Rothbard, 1995 available at the Suffolk University Bookstore.

“Early Speculative Bubbles and Increases in the Supply of Money”, by Douglas E. French, 2009 available at the Suffolk University Bookstore.

Case studies and research reports, which are detailed in Section XIII Tentative Session Outline, will also serve as the foundation for our lectures and discussions.

Other Material

You are encouraged to read a combination of the following news sources as current events and ‘Topics of The Day’ will be discussed in detail during the course.

Recommended Specialized News & Analysis Outlets:

Mises Institute- www.mises.org

Global Economic Analysis- www.globaleconomicanalysis.blogspot.com

Calculated Risk- www.calculatedrisk.blogspot.com

Seeking Alpha- www.seekingalpha.com

The Big Picture- www.ritholtz.com

ClusterStock- www.clusterstock.com

Mainstream News Outlets:

Wall Street Journal- www.wsj.com

Financial Times- www.ft.com

Bloomberg- www.bloomberg.com

IV. Prerequisites

FIN310 & a fundamental understanding of statistics, economics and financial mathematics.

V. Course Objectives

This course consists of three parts. In the first segment, students are provided with an executive overview of financial markets and derivative instruments. The goal is to lay the groundwork for a series of subsequent discussions that examine how the perceived dissemination of risk via structured securities arguably resulted in an overconcentration of risk. Students will also be introduced to the Bloomberg Terminal via an intensive in class training. Throughout the semester, the Terminal will be employed to closely monitor global financial markets, identify leading and lagging economic indicators and explore multi-order

relationships. An optional recitation, the details of which will be announced the first night of class, shall be held for students seeking to improve their knowledge of prerequisite material.

The second part of this course examines the causes and origins of the current financial crisis. It begins with a brief history of money and credit and delves into past financial panics and assets bubbles in the context of today's economic climate. From this point we discuss the role of central banks and government sponsored entities and their principal focus on providing market liquidity and managing asset prices. The economics of the housing bubble, fall out from subprime lending and collapse of some of Wall Streets most prestigious investment banks will then take center stage. Last, we will investigate the works of economists that claim to have forecasted the crisis and discuss which risk management tools, if applied correctly, might have identified problems early on.

The course concludes with a discussion of Federal Reserve and US Treasury policy implications. Students will have an opportunity to formulate alternative proprietary solutions to the crisis, discuss re and opine on the shape of financial markets in the future.

VI. Course Format

Classes will consist of lectures but are ideally as interactive as possible. We will begin select classes with a brief discussion of current events or mini-case studies (Topics of The Day) relevant to the week's topics and you are encouraged to suggest articles. Participation, which is not synonymous with attendance or spectating, is a major component of the final grade.

Students should feel free at all times to raise questions, engage in debate, contribute opinions and provide their professional view of the material discussed in class. Everyone's point of view is highly valued and credit will never be lost by expressions of disagreement with fellow students or me.

The classroom is a dynamic learning environment and I advocate not only a top-down, vertical transfer of information but also a horizontal dimension to the learning exchange.

VII. Podcasting

To enable students to study more effectively, I intend to record lectures and make them available upon request. The goal of podcasting is to reinforce the material that we cover, not to replace lectures or accommodate students that miss class.

VIII. General Course Policies, Attendance and Class Conduct

Attendance

Attendance is vital and as a policy, I do circulate a sign-in sheet at the start of each lecture. Please let me know in advance if you cannot attend a class (due to business travel or illness) or need to arrive late or depart early. If you miss more than 2 classes, or are habitually tardy, your grade will be adversely affected at my discretion.

Exams, Homework & Presentations

Failure to take any of the exams will automatically result in a letter grade of "F" for the course. There are no make-up exams or extra credit projects should an exam be missed. Similarly, problem sets and presentations must be turned in on time; late submissions will not be accepted.

Class Conduct

I respect the fact that we all have busy schedules but as a courtesy to everyone in the classroom, please keep mobile phones on silent mode or off.

Academic Honesty

All students must read and be familiar with Suffolk University's academic integrity policy and Student Handbook. Violations, which include but are not limited to any form of cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery or threatening behavior will not be tolerated and automatically result in a letter grade of "F" for the course.

IX. Required Tools

Students are expected to be proficient using a financial calculator (HP or TI), Bloomberg Terminal, Microsoft Excel PowerPoint and Word.

X. Grading & Exams

Your final grade will be a combination of class participation, assignments, obtaining an Equity or Fixed Income Bloomberg Certification, team projects and a final exam. Problem sets and homework questions are individual assignments and students are not permitted to work together on them.

The grade and component distributions are outlined below:

| Letter Grade | Numeric Grade |
|---------------------|----------------------|
| A | 95 - 100 |
| A- | 90 - 95 |
| B+ | 85 - 90 |
| B | 80 - 85 |
| B- | 77.5 - 80 |
| C+ | 75 - 77.5 |
| C | 70 - 75 |
| C- | 67.5 - 70 |
| D | 65 - 67.5 |
| F | <65 |

| Component | Total Weight |
|--|---------------------|
| Attendance and Participation | 20% |
| Assignments/Case Study (2) | 20% |
| Team Projects (3) | 30% |
| Bloomberg Equity or Fixed Income Certification | 10% |
| Final Exam | 20% |
| Total | 100% |

XI. Executive Team Presentations:

Students will divide into small groups (ideally, three or four per team) to research and prepare three executive presentations on contemporary course related topics. Multiple topics will be discussed and selected early in the semester. The presentations are tentatively scheduled to be delivered in Class #6, Class #9 and Class #12. Please begin working on the project immediately and do not wait until the last minute to get started. The projects will give you an opportunity to learn more about specific aspects of investments and develop your presentation skills.

Presentation Grading

| Component | Weight |
|------------------------------------|--------|
| Presentation Format and Appearance | 20% |
| Organization and Structure | 25% |
| Content | 30% |
| Engaging the Audience | 25% |
| Total | 100% |

XII. Availability

I am generally available by phone and email weekdays until 9pm at night and in the evenings on the weekends. I always try to respond to inquiries the same business day. Please note that I often respond to individual emails and post topical news articles late at night or early in the morning as my schedule dictates.

If these times are not convenient for you, please let me know and I will be happy to accommodate your schedule if at all possible. I provide you with this time frame to make it easier to communicate with, not to limit our contact and want you to know that, should you need to contact me outside these time frames, you should not hesitate to do so.

XIII. Tentative Session Outline

Please read/review the handouts and case studies ahead of the class. Bear in mind that this is a tentative schedule and subject to change at any point.

| Legend | |
|--------|-------------------------------|
| ▶ | Denotes a lecture topic |
| ● | Denotes a reading assignments |
| ■ | Denotes a deliverable / exam |

| Lecture | Topics, Readings and Deliverables |
|---|--|
| I. Financial Instruments, Markets & Theory | |
| 1 | <ul style="list-style-type: none"> ▶ Course Overview and Introduction ▶ Review of Global Asset Classes, Financial Instruments and the Economic Climate <ul style="list-style-type: none"> ● <i>Harvard Business School Press: Money and Capital Markets</i> (http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=5832BC-PDF-ENG&conversationId=222524&E=34357) |
| 2 | <ul style="list-style-type: none"> ▶ Introduction to Bloomberg: Analytics, Global Markets, Research and Valuation ▶ Global Financial Markets Exercise <ul style="list-style-type: none"> ● <i>Summary of Key Bloomberg Commands</i> |
| 3 | <ul style="list-style-type: none"> ▶ An Overview of Global Derivative Securities Part I: Forwards, Futures, Options & Swaps <ul style="list-style-type: none"> ● <i>Harvard Business School Press: Note on Commodity Futures</i> (http://cb.bsp.harvard.edu/cb/product/293018-PDF-ENG) ● <i>Harvard Business School Press: Note on Basic Option Properties</i> (http://harvardbusiness.org/product/note-on-basic-option-properties/an/205105-PDF-ENG) ● <i>Darden Business Publishing: Valuation of Plain Vanilla Interest Rate Swaps</i> (http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=UV0103-PDF-ENG&conversationId=222978&E=76403) |
| 4 | <ul style="list-style-type: none"> ▶ An Overview of Global Derivative Securities Part II: Collateralized Debt Obligations, Credit Default Swaps and Other Securitized Products ▶ Role of Financially Engineered Products and Contagion in the Global Markets <ul style="list-style-type: none"> ■ Assignment #1 Due ● <i>Fitch Ratings: Definitions and Rating Scales</i> (http://www.fitchratings.com/web_content/ratings/fitch_ratings_definitions_and_scales.pdf) ● <i>Fitch Ratings: Global Rating Criteria for CDOs</i> (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=384542&sector_flag=4&marketsector=2&detail=2) ● <i>Harvard Business School Press: Overview of Credit Derivatives</i> (http://cb.hbsp.harvard.edu/cb/web/product_detail.seam?R=297086-PDF-ENG&conversationId=223340&E=14468) ● <i>Gary Gorton "The Panic of 2007", Federal Reserve Bank of Kansas City, Jackson Hole Conference October 2008</i> (http://www.kansascityfed.org/publicat/sympos/2008/Gorton.10.04.08.pdf) |
| II. An Overview of Crises Past and Present | |
| 5 | <ul style="list-style-type: none"> ▶ The History of Money, Banking and Credit ▶ A 38 Year Experiment- Bretton Woods, the Gold Standard and Fiat Currency <ul style="list-style-type: none"> ● <i>Joseph T. Salerno "Banking and the Business Cycle", Pace University September 2007</i> ● <i>Murray N. Rothbard "The Case Against the Fed", p3 to p58, 1995 and "The Case for a Genuine Gold Dollar" 1992</i> |

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| | <ul style="list-style-type: none"> ● Alan Greenspan "Gold and Economic Freedom", <i>The Objectivist</i> 1966 (http://www.ritholtz.com/blog/2008/11/gold-and-economic-freedom-by-alan-greenspan/) |
| 6 | <ul style="list-style-type: none"> ▶ Lessons From, and Responses to, Historical Asset Bubbles and Financial Panics-From Tulip Mania and the Panic of 1907 to the Crash of 1987 and Dot-Com Bomb <ul style="list-style-type: none"> ■ First Team Presentations (All Teams) <ul style="list-style-type: none"> ● Douglas French "Early Speculative Bubbles and Increases in the Supply of Money" 2009 (<i>Select Readings</i>) ● Robert Blumen "Are Bubbles Efficient?", <i>Mises Institute</i> February 2004 (http://mises.org/story/1432) ● Steve Schifferes "Financial Crises: Lessons From History", <i>BBC News</i> September 2007 (http://news.bbc.co.uk/2/hi/business/6958091.stm) |
| 7 | <ul style="list-style-type: none"> ▶ The Role of the Federal Reserve and Central Banks in the Global Crisis ▶ Liquidity, Insolvency and Asset Pricing Theory and the LAPM <ul style="list-style-type: none"> ● V.V. Chari, Lawrence Christiano, Patrick Kehoe "Facts and Myths About the Financial Crisis of 2008", <i>Federal Reserve Bank of Minneapolis Working Paper</i> October 2008 (http://www.minneapolisfed.org/research/WP/WP666.pdf) ● Jan Hatzius "How Should Central Banks Respond to Asset Bubbles", <i>Goldman Sachs US Economic Research</i> March 2006 ● Basel Committee on Banking Supervision "Sound Practices for Managing Liquidity Risk in Banking Organizations", February 2000 ● Frank Shostak "The Fed Did It and Greenspan Should Admit It", <i>MF Global</i> March 2009 (http://mises.org/story/3382) ● Michael Rozeff "Insolvency vs Liquidity", <i>University at Buffalo</i> April 2009 ● Viral Acharya and Lasse Pedersen "Asset Pricing With Liquidity Risk", <i>Journal of Financial Economics</i> April 2005 (http://pages.stern.nyu.edu/~lpederse/papers/liquidity_risk.pdf) |
| 8 | <ul style="list-style-type: none"> ▶ Anatomy of Global Investment Banking and Securities Underwriting <ul style="list-style-type: none"> ● Lecture only, no reading assignment |
| 9 | <ul style="list-style-type: none"> ▶ The Economics of the Housing Bubble ▶ Fannie Mae and Freddie Mac <ul style="list-style-type: none"> ■ Second Team Presentations (All Teams) <ul style="list-style-type: none"> ● Mark Thornton & Benjamin Powell "Economics of Housing Bubbles", <i>Auburn University & Suffolk University</i> September 2008 (http://mises.org/journals/scholar/Thornton13.pdf) ● <i>The Economist</i> "End of Illusions", July 2008 (http://www.economist.com/finance/displaystory.cfm?story_id=11751139) ● Frank Shostak "Are Fannie and Freddie Too Big to Fail?", <i>MF Global</i> September 2008 (http://mises.org/story/3110) and "Who Made the Fannie & Freddie Threat" <i>MF Global</i> March 2004 (http://mises.org/story/1463) ● Robert Blumen "Does Fannie Mae Distort Markets?", <i>Mises Institute</i> March 2002 (http://mises.org/story/986) |
| 10 | <ul style="list-style-type: none"> ▶ Subprime Lending Global Fallout ▶ Too Big To Fail, Too Small To Be Noticed: Examining the Collapse of Bear Stearns <ul style="list-style-type: none"> ■ Assignment #2 Due |

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| | <ul style="list-style-type: none"> ● Karen Weaver “ The Subprime Mortgage Crisis: A Synopsis”, Deutsche Bank Securitization Reports October 2007 ● Demyanky and Van Hemert “Understanding the Subprime Mortgage Crisis”, St. Louis Federal Reserve Working Paper May 2007 ● David Stowell “Investment Banking in 2008: The Rise and Fall of Bear Stearns”, Kellogg School of Management |
| 11 | <ul style="list-style-type: none"> ▶ Forecasting the Global Financial Crisis- Was It Predictable? ▶ Introduction to Financial Institution Risk Management Practices <ul style="list-style-type: none"> ● Stephanie Baker-Said “Nassim Taleb: Flight of the Black Swan”, Bloomberg Magazine May 2008 (http://www.bloomberg.com/news/marketsmag/mm_0508_story1.html) ● Maggie Mahar “Nassim Taleb: No Such Thing”, Bloomberg Magazine June 2003 (http://www.fooledbyrandomness.com/bloomberg.pdf) ● Peter Schiff “Why the Meltdown Should Have Surprised No One”, EuroPacific Capital June 2009 ● Robert Shiller “ Is There a Bubble in the Housing Market”, Brookings Papers on Economic Activity 2003 (http://www.econ.yale.edu/%7Eshiller/pubs/p1089.pdf) ● Greg Gupton, et al “ How Much Credit in Credit Risk Models”, Fitch Ratings Criteria Reports May 2007 (www.defaultrisk.com/pp_other150.htm) ● Risk Metrics Group “ Risk Management: A Practical Guide”, August 1999 (www.riskmetrics.com/publications/techdocs/pracovv.htm) |
| III. Policy Responses and Alternative Solutions | |
| 12 | <ul style="list-style-type: none"> ▶ A Summary of Global Policy Responses From the Federal Reserve , US Treasury and Global Central Banks <ul style="list-style-type: none"> ■ Final Team Presentations ● Reading Assignments to be Announced Covering: TARP, TALF, CPFF, PPIP, Euro zone and Asian Policy Responses |
| 13 | <ul style="list-style-type: none"> ▶ Alternative Solutions and Proposals to the Financial Crisis, a Student Roundtable Discussion <ul style="list-style-type: none"> ● Nassim Taleb “Time to tackle the Real Evil: Too Much Debt”, Universa Investments July 2009 (http://www.ft.com/cms/s/0/4e02aeba-6fd8-11de-b835-00144feabdc0.html) ● David Saied “The Debt Crisis Cannot Be Solved with More Debt” August 2009 (http://mises.org/story/3615) “Panama Has No Central Bank” April 2007 (http://mises.org/story/2533) Suffolk University Masters Candidate and Former Securities and Exchange Commissioner of Panama ● Jesus Huerta De Soto “Money, Bank Credit and Economic Cycles” Ch9- A Proposal for Banking Reform 2006 |
| 14 | <ul style="list-style-type: none"> ■ In Class Final Examination |