Financial Crises and Global Business
C.T. Bauer College of Business
Summer II: class dates June 1 to July 2, 2015 (Melcher Hall 112)
Proposed meeting times: Monday to Thursday, 4:00 to 6:30 pm

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Class: Special Topics FINA 4397-3 19582 and INTB 4397-1 18589

Financial Crises and Global Business

This class assesses the history of financial crises, the policy responses, and the impacts on business development in specific cases from Latin America (1980-1990s), Southeast Asia (late 1990s), and the United States and Europe (2008-2009). An understanding of macroeconomic conditions and the role of institutions, in the public and private sectors, provides the context for this comparative analysis of financial crises. It is a relatively small seminar style class with opportunity for discussion.

This class is open to undergraduate students of any major, and it is an elective class for students in the Bauer College of Business. The class provides credit towards the certificate in Global Studies. Prerequisite classes are a macroeconomics course or one course in INTB.

Course Objectives:
Financial Crises and Global Business assesses the history, policy/regulatory responses, and impacts on business. An analysis of the historical circumstances surrounding financial crises provides identification of similarities and differences across crises. Financial crises vary in their underlying impetus, as they may be caused for reasons of indebtedness, currency volatility, or scarcity of credit.

The instructor worked in economic research and public affairs with the Houston Branch of the Federal Reserve Bank of Dallas during the years of the recent financial crises 2008-2009. The Federal Reserve System, in cooperation with central banks internationally, provided institutional support to the private banking system. This monetary policy action, together with bank loans directly from the government’s Treasury, and fiscal policy stimulus were among actions taken by the U.S. government. This most recent case provides the contexts for a comparative analysis of previous financial crises.

After taking this class you will:
- Understand the history of financial crises, in specific cases since the 1970s
- Be able to compare crises across countries and across time
- Evaluate policy response by national and international actors
- Specify the impacts of policy responses on domestic and global businesses
- Make a comparative analysis and draw conclusions regarding national and international policy responses to crises and the effects on business development and broader economic growth

Evaluation:
Mid-term analytical and essay exam in class 20 percent mid-June, Week 3
Final take home research project exam 30 percent due Monday, July 6
Participation 14 percent
(Two) discussion/presentation assignments 2 x 8 points = 16 percent
(Four) weekly homework brief essays 4 x 5 points = 20 percent
The final exam research paper project is an assessment of a historical crisis in international economics. Specific instructions will be forthcoming. The research paper will present three parts:

I. History of a selected financial crisis
II. Policy Responses: National and international levels
III. Impact on Business

Organization of the course:

I. Historical Cases:
   1. Debt crises of the 1980s and 1990s
      Mexico 1980s debt crises, 1990s currency crises
      Latin America 1990s
      Russia late 1990s and 2014
   2. Currency crises of the late 1990s
      East Asia 1990s
   3. Credit crises in the U.S. and Europe in 2007-2009
      Great Recession 2008-2009, US and Europe

II. Policy Responses
   1. Domestic politics responses and electoral outcomes
   2. Role of multilateral lending institutions: IMF and ECB
   3. Role of multilateral advisory institutions: Bank for International Settlements, Basel Committee

III. Impact on business:
   1. Economic growth
   2. Currency markets
   3. Financial markets
   4. Credit markets
   Impacts on business are assessed at national and regional levels.

Required reading assignments:

3. Select book chapters and academic articles posted to Blackboard
Weekly topics and assignments:

The reading assignments will be discussed on the day listed following. Students are expected to have read the material and to come to class prepared to make discussion contributions.

Week 1, June 1 to 4

Foundations of international economics
Relationships among Exchange Rate, Interest Rate, and Money Market
   - This Time is Different
     Part I: Financial Crises: An Operational Primer 1
     Chapter 1: Varieties of Crises and Their Dates 3
     Crises Defined by Quantitative Thresholds: Inflation, Currency Crashes, and Debasement 4
     Crises Defined by Events: Banking Crises and External and Domestic Default 8
     Other Key Concepts 14

The Institutional Architecture of National and International Finance
National accounting: Balance of Payments
Introduction to crises
   - This Time is Different
     Chapter 2: Debt Intolerance: The Genesis of Serial Default 21
     Debt Thresholds 21
     Measuring Vulnerability 25
     Clubs and Regions 27
     Reflections on Debt Intolerance 29

Overview: Recent crisis history in the US and in Europe
International Economics
   - This Time is Different
     Chapter 3: A Global Database on Financial Crises with a Long-Term View 34
     Prices, Exchange Rates, Currency Debasement, and Real GDP 35
     Government Finances and National Accounts 39
     Public Debt and Its Composition 40
     Global Variables 43
     Country Coverage 43
   - Krugman, Obstfeld, and Melitz, chapter 20

Week 2, June 8 to 11

Institutional Design and International Finance
Recent crisis monetary policy response to the Great Recession
Recent crisis fiscal policy response to the Great Recession

Historical approaches to economic development: Import-Substituting Industrialization v. Export-Oriented Development
Latin America:  
Mexico, debt crisis of 1980s
– *This Time is Different*
  Chapter 9: Domestic and External Default: 128  
  Real GDP in the Run-up to and the Aftermath of Debt Defaults 129  
  Inflation in the Run-up to and the Aftermath of Debt Defaults 129  
  The Incidence of Default on Debts Owed to External and Domestic Creditors 133  
  Summary and Discussion of Selected Issues 136  

Argentina and Brazil in the 1990s
Selected readings, posted on Blackboard

Latin America:  Mexico, currency crisis of 1990s
- *This Time is Different*
  Chapter 10: Banking Crises 141  
  A Preamble on the Theory of Banking Crises 143  
  Banking Crises: An Equal-Opportunity Menace 147  
  Banking Crises, Capital Mobility, and Financial Liberalization 155  
  Capital Flow Bonanzas, Credit Cycles, and Asset Prices 157  
  Overcapacity Bubbles in the Financial Industry? 162  
  The Fiscal Legacy of Financial Crises Revisited 162  
  Living with the Wreckage: Some Observations 171

Week 3, June 15 to 18

Asian currency crises of the late 1990s
- *This Time is Different*
  Chapter 12: Inflation and Modern Currency Crashes 180  
  An Early History of Inflation Crises 181  
  Modern Inflation Crises: Regional Comparisons 182  
  Currency Crashes 189  
  The Aftermath of High Inflation and Currency Collapses 191  
  Undoing Domestic Dollarization 193

Asian currency crises of the 1990s, continued
– National and international policy responses and impacts on business  

*Midterm exam in class, 1.5 hours*
Week 4, June 22 to 25

The Great Recession in the U.S. and Advanced Economies
  - This Time is Different
    Chapter 13: The U.S. Subprime Crisis: An International and Historical Comparison 203
    A Global Historical View of the Subprime Crisis and Its Aftermath 204
    The This-Time-Is-Different Syndrome and the Run-up to the Subprime Crisis 208
    Risks Posed by Sustained U.S. Borrowing from the Rest of the World: The Debate before the Crisis 208
    The Episodes of Postwar Bank-Centered Financial Crisis 215
    A Comparison of the Subprime Crisis with Past Crises in Advanced Economies 216
    Summary 221

The Aftermath of the Great Recession in the U.S. and Advanced Economies
  - This Time is Different
    Chapter 14: The Aftermath of Financial Crises 223
    Historical Episodes Revisited 225
    The Downturn after a Crisis: Depth and Duration 226
    The Fiscal Legacy of Crises 231
    Sovereign Risk 232
    Comparisons with Experiences from the First Great Contraction in the 1930s 233
    Concluding Remarks 238

The policy responses: A closer look at national and international institutions
  The roles of International Financial Institutions
  The IMF, the Central Banks, and the Basel Committee
  - Selected readings on Blackboard

Recent crisis impact on financial and credit markets in the five years following
  - This Time is Different
    The impacts on business
    Chapter 17: Reflections on Early Warnings, Graduation, Policy Responses, and the Foibles of Human Nature 277
    On Early Warnings of Crises 278
    The Role of International Institutions 281
    Graduation 283
    Some Observations on Policy Responses 287
    The Latest Version of the This-Time-Is-Different Syndrome 290
Week 5, June 28 to July 2

Class 13
Vulnerabilities of developing countries
Institutional weakness and dollarization liabilities
- Krugman, Obstfeld, and Melitz, chapter 22

Class 14
Conclusions and research projects focus
- What have we learned?
- Comparing regional crises
- The sources of financial crises over time
- Research presentations

*Final exam – research paper for exam – due via TurnItIn on Monday, July 6*

Additional Selected Readings:
(*Available on Course Reserve in library (two-hour to scan/copy); articles posted on Blackboard)
*Sachs, Jeffrey. 1986. “Making the Brady Plan Work.” Foreign Affairs. 68(3), 87-104

The Economist interactive essay: The slumps that shaped modern finance

The years 1792, 1825, 1857, 1907, and 1929 - that shaped modern finance - are featured in this essay. More recent crises are 2008 (sub-prime mortgage lending), 2001 (dot.com), 1997 (Asian crisis), 1987 (black Monday), and 1973-1974 (oil crisis with OPEC embargo to US)