FINC-GB.2150
THE FINANCIAL CRISIS OF 2007-2009:
CAUSES, SOLUTIONS and REGULATION

NEW YORK UNIVERSITY, STERN SCHOOL

Syllabus

Professor Matthew Richardson
Office: 9-60
Telephone: (212)998-0349
Fax: (212)995-4220
E-mail: mrichardson@stern.nyu.edu
Administrative Assistant: Robyn Vanterpool
Telephone: (212) 998-0703

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. Considerable time will be spent on the current crisis in the Eurozone.

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”. A fourth book on the way is “The Euro: A Crisis of Our Own Making.” 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. Moreover, because of our proximity to Wall Street, the course also affords an opportunity to bring in from time to time relevant outside speakers who can provide real-life experience on top of the analysis provided in the class.
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 collection of readings, which provide additional discussion of the issues and analysis brought up during the lectures. These materials will be handed out at the beginning of the semester.

Third, a number of lengthy readings that should be read prior to the start of the course. While the required books are still being considered, the list includes NYU Stern’s work, and one of the better narrative books describing the financial crisis and possibly an historical perspective on financial crises:

ONLINE (LENGTHY) MATERIAL

A. The Financial Crisis Inquiry Report (2011)

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

C. Lehman Brothers Holdings Inc. Chapter 11 Proceedings Examiner’s Report
   http://lehmanreport.jenner.com/

BOOKS


D. TBA : (Journalist Narrative on Crisis)

All of these books are available on Amazon and similar online sites.

BECAUSE OF THE SHORT TIMELINE OF THE COURSE, THE READING SHOULD BE COMPLETED PRIOR TO TAKING THE COURSE. NOTE: THERE IS A LARGE AMOUNT OF READING MATERIAL!
**Course Requirements**
The grading system is still to be worked out, but logically it will involve some case study analysis, and some type of exam/essay.

**TENTATIVE LIST of TOPICS**

**January 3rd, 6pm-9pm: Historical Perspective of Financial Crises**
The first part of the lecture 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 second part of the lecture covers the evolution of the financial system after the Great Depression through the next 70 years. The majority of the analysis will focus on how the system changed post 1980s and how regulation responded (or not as the case may be) to these changes.

**January 5th, 6pm-9pm: Causes of the Financial Crisis of 2007-2009**
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. 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 NYU Stern book “Restoring Financial Stability: How to Repair a Failed System”, one of the narratives of the crisis in the popular literature (TBA). An outside speaker will provide a unique perspective on these events.

**January 8th, 9am-4pm: The Euro Crisis**
Because of the timeliness of the topic, and its relation to the financial crisis of 2007-2009, the entire 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 to 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. Thus, aside from analyzing the sources of risk in the Eurozone, an important part of the class will be students trying to analyze both resolution processes for the Eurozone and possible new architectures for the Eurozone.

**January 10th, 6pm-9pm: 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. The topic will offer 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. An outside speaker will provide a unique perspective on this topic.

**January 12th: 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. Significant parts of the lecture will involve a discussion of resolution mechanisms. 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.” An outside speaker will provide a unique perspective on this topic.