

PPOL 5270: Finance, Financial Crises, and Economic Development

The global financial crisis (GFC) of 2007-2012 was not just an economic calamity, it also precipitated a crisis in economic and political ideas. The pre-crisis faith that free (and globalised) financial markets would produce efficient outcomes has been significantly eroded. More than a decade on, policymakers still struggle to engage with a more empirically grounded and less dogmatic brand of economics, and the differing policy prescriptions that it might suggest.

The GFC and the Covid-19 pandemic are the defining economic crises of our times. Students of public policy must have a sound understanding of the causes and consequences of the financial crisis, the ideas in finance and economics that contributed to it, and how those ideas and their policy implications are debated. This is what the course aims to provide.

This module takes a practitioner-oriented perspective to the study of finance and economic development after the GFC. It examines the lasting effects of what Martin Wolf, chief economics commentator at the *Financial Times*, has called a series of crises that “destroyed confidence in the competence and probity of financial, economic and policymaking elites”, especially those in the advanced economies.

First, the course examines the multiple ways in which *financial markets fail*. More often than the pre-crisis economics orthodoxy has tended to acknowledge, well-functioning markets require governments to regulate, stabilise, and legitimise markets.

Second, we examine *the causes and consequences of the global financial crisis*. Through the lens of market failures, macroeconomic factors, and regulatory/governmental failures, we look at how financial markets may *not* be self-correcting or efficient. We study how the global financial crisis raised far-reaching questions about many of the underlying assumptions of neoclassical economics: from rational agency and the efficiency of markets to the efficacy of market competition and shareholder discipline in ensuring financial stability.

Third, we look at the *challenges of economic development after the crisis* (and which the pandemic has made more salient). We examine a selection of economic trends after the global financial crisis: the middle-income trap; slower, more fragmented globalisation; pressures for localisation and regionalisation; premature de-industrialisation; the headwinds confronting the Chinese economy; and how the economics discipline is changing after the pandemic.

Instructor: Professor Donald Low (donaldlow@ust.hk)
Classes: Tuesday, 16:30 – 19:20 (LSK 1033)
Office hours: Tuesday, 14:30 – 16:00

Readings

Some of the readings are written by academic or professional economists. However, many are drawn from general, non-technical publications, such as *The Economist* and *Financial Times*.

As part of their coursework, students must read *Firefighting: The Financial Crisis and its Lessons* by Ben Bernanke, Timothy Geithner, and Henry Paulson Jr. Some of the readings will be from Adair Turner’s *Between Debt and the Devil: Money, Credit and Fixing Global Finance*. Students are therefore encouraged to get copies of *Firefighting* and *Between Debt and the Devil*.

Assessment

1. 20-minute individual interview on “Firefighting: The Financial Crisis and its Lessons” by Ben Bernanke, Timothy Geithner, and Henry Paulson Jr <u>and</u> “Inside Job”	30%	Students are required to read <i>Firefighting</i> and watch the film <i>Inside Job</i> and to discuss them from with Prof Low in a 20-minute individual session. Each student will present his/her key takeaways and highlight the main issues/questions that the book and film raised. These interviews will be held in the week of 2 Oct.
2. Mid-term exams	25%	The <u>2-hour</u> mid-term exams, consisting of multiple-choice questions and short essays, will be held in class on 24 Oct.
3. Policy brief <u>or</u> Commentary	35% (incl. 5% for presentation)	Students will work in a pair/trio to write a <u>policy brief or newspaper commentary of no more than 1,500 (or no more than 1,800 words if working in a trio)</u> on a contemporary financial or macroeconomic issue facing the Chinese or global economy. Students will present their policy brief/commentary in 4-5 minutes during the last class on 28 Nov. The final policy brief or commentary must be submitted online by 12 Dec, 23:59.
4. Student participation	10%	Students are expected to participate actively in class by asking, and responding to, questions.

The course week-by-week

Class (Date)	Topic
1 (5 Sep)	Introduction: Finance and Economic Development 1. Eswar S. Prasad, <i>The Future of Money</i> , Ch. 2 2. Adair Turner, <i>Between Debt and the Devil: Money, Credit and Fixing Global Finance</i> , Introduction, Ch 2
2 (12 Sep)	How Financial Markets Fail I 1. John Cassidy, <i>How Markets Fail: The Logic of Economic Calamity</i> , Ch 1-6, 9-13 2. The Economist, <i>Efficiency and Beyond</i> , 16 Jul 2009

	3. John Kay, Lecture at the Lee Kuan Yew School of Public Policy on “Other People’s Money: The Real Business About Finance” (watch the lecture at https://www.youtube.com/watch?v=UOCC4PqtsF8)
3 (19 Sep)	How Financial Markets Fail II 1. Adair Turner, Chapters 3-7, 9
4 (26 Sep)	Key Finance and Macroeconomic Concepts 1. Martin Wolf, <i>The Shifts and the Shocks: What We’ve Learned – and Have Still to Learn from the Financial Crisis</i> , Chapter 4 2. Martin Wolf, <i>The Shifts and the Shocks: What We’ve Learned – and Have Still to Learn from the Financial Crisis</i> , Chapter 5 (supplementary)
5 (3 Oct)	The Global Financial Crisis: Context and Causes 1. Cassidy, Chapters 17-19 2. Raghuram Rajan (2005), “Has Financial Development Made the World Riskier?” (supplementary)
6 (10 Oct)	The Global Financial Crisis: Consequences 1. Cassidy, Chapters 20-23 2. Paul Krugman, How Did Economists Get It So Wrong? http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html
7 (17 Oct)	Does financial liberalization promote economic development? 1. Joe Studwell, <i>How Asia Works</i> , Part 3 2. Turner, Chapter 8 3. Eswar Prasad, Raghuram Rajan, Arvind Subramaniam (2007), “Foreign Capital and Economic Growth” (supplementary)
8 (24 Oct)	Mid-term exams at 16:30-18:30.
9 (31 Oct)	Economic Development after the GFC 1. Joe Studwell, <i>How Asia Works</i> , Introduction and Part 2: The Victory of the Historians 2. Dani Rodrik, “Are Services the New Manufactures?”, <i>Project Syndicate</i> , 13 Oct 2014 3. Dani Rodrik, “Back to Fundamentals in Emerging Markets”, <i>Project Syndicate</i> , 13 August 2015
10 (7 Nov)	China’s Development Model, Part I 1. Joe Studwell, <i>How Asia Works</i> , Part 4: Where China Fits In 2. New York Times, “China’s Economy Became No.2 by Defying No.1”, 25 Nov 2018 https://www.nytimes.com/interactive/2018/11/25/world/asia/china-economy-strategy.html 3. Financial Times, “China’s economy defies the odds”, 11 Jan 2019 4. The Economist, “China’s industrial policy has worked better than critics think”, 2 Jan 2020

<p>11 (14 Nov)</p>	<p>China’s Development Model, Part II</p> <ol style="list-style-type: none"> 1. The Economist, “The story of China’s economy as told through the world’s biggest building”, 23 February 2019 2. The Economist, “China’s dual-circulation” strategy means relying less on foreigners, 7 Nov 2020 3. The Economist, “Foreign investors are fleeing China”, 23 May 2022 4. The Economist, “China’s economy is beset by problems”, 18 Aug 2022 5. Financial Times (2021), “Is China’s economic model broken?” (https://www.youtube.com/watch?v=3pnrwxQfIo) 6. Financial Times (2021), “Evergrande: The end of China’s property boom” (https://www.youtube.com/watch?v=dnP_MxXY9qs&t=55s) <p>The Middle-Income Trap</p> <ol style="list-style-type: none"> 1. Richard F. Doner and Ben Ross Schneider (2016), “The Middle-Income Trap: More Politics than Economics”, <i>World Politics</i>, Volume 68, Issue 4
<p>12 (21 Nov)</p>	<p>Current Macroeconomic issues after the Pandemic</p> <ol style="list-style-type: none"> 1. The Economist, “After getting inflation so wrong, can the Fed now get it right?”, 23 Apr 2022 2. The Economist, “Why the Federal Reserve has made a historic mistake on inflation”, 23 Apr 2022 3. The Economist, “Are emerging markets on the verge of another ‘lost decade’?”, 26 Apr 2022
<p>13 (28 Nov)</p>	<p>Student presentations of policy briefs/commentaries (4-5 minutes per student/pair)</p>