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 and “Inside Job” 30% Students are required to read Firefighting and watch the film Inside Job 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 2-hour mid-term exams, consisting of multiple-choice questions and short essays, will be held in class on 24 Oct.

3. Policy brief or Commentary 35% (incl. 5% for presentation) Students will work in a pair/trio to write a policy brief or newspaper commentary of no more than 1,500 (or no more than 1,800 words if working in a trio) 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

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<td>3 (19 Sep)</td>
<td>How Financial Markets Fail II</td>
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| 4 (26 Sep) | Key Finance and Macroeconomic Concepts | 1. Martin Wolf, *The Shifts and the Shocks: What We’ve Learned – and Have Still to Learn from the Financial Crisis*, Chapter 4  
2. Paul Krugman, How Did Economists Get It So Wrong?  
2. Turner, Chapter 8  
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 |
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| 11  | (14 Nov) | **China’s Development Model, Part II**                              | 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  
| 13  | (28 Nov) | **Current Macroeconomic issues after the Pandemic**                  | 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 |
|     |      | **Student presentations of policy briefs/commentaries** (4-5 minutes per student/pair) |                                                                                              |