

PPOL 5270: Finance, Financial Crises and Economic Development

The global financial crisis of 2007-2009 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 global financial crisis was the defining economic event of our times. Students of economics and public policy must have a sound understanding of the causes and consequences of the 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 crisis and examines its policy implications. 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*, e.g. public goods, externalities, informational asymmetries, and collective action problems. 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 always 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 *challenge of economic development after the crisis*, especially after the pandemic. We examine a selection of economic policy challenges after the global financial crisis, such as slower globalisation and what this means for emerging markets, premature de-industrialisation, the middle-income trap, the risks facing the Chinese economy, and economics after the pandemic.

Instructor: Professor Donald Low (donaldlow@ust.hk)
Class: Monday, 4:30 – 7.20 pm (LSK 1007)
Office hours: Monday, 2:00 pm – 3:30 pm (IAS Rm 2018)

Readings

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

As part of their coursework, students are required to write a summary (of no more than 1,200 words) of *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 purchase *Firefighting* and Turner’s *Between Debt and the Devil*.

Assessment

1. Summary of “Firefighting: The Financial Crisis and its Lessons” by Ben Bernanke, Timothy Geithner, and Henry Paulson Jr.	20%	Students are required to submit a summary of <u>no more than 1,200 words</u> of the book. To be submitted <u>before class</u> on 4 October 2021 .
2. Summary of readings (for 5 classes)	15%	Students are required to submit, before the start of class, a summary (of <u>3-4 pages</u>) of the readings he/she has done for that class. This is required for <u>5 classes</u> over the semester.
3. Class participation	15%	Students are required to participate actively in class by asking and responding to questions. <u>As classes are delivered only in a face-to-face mode, students are expected to be present in class.</u> Students who are not able to attend class in person should submit, before the start of class, a two-page summary of the readings for that class to gain participation marks.
4. Mid-term exams	25%	The <u>two-hour</u> mid-term exams, consisting of multiple-choice questions and short essays, will be held in class on 8 November 2021 .
5. Policy brief	25%	Students will work in groups of <u>two</u> members to write a policy brief of <u>no more than 1,500 words</u> on a contemporary issue facing the Chinese or global economy. To be submitted online by 13 December 2021 .

The Course Week by Week

Class (Date)	Topic
1	Introduction: Finance and Economic Development

(6 Sep)	<ol style="list-style-type: none"> 1. The Economist, “Efficiency and beyond”, 16 Jul 2009 2. Adair Turner, <i>Between Debt and the Devil: Money, Credit and Fixing Global Finance</i>, Introduction, Ch 2
2 (13 Sep)	<p>How Financial Markets Fail I</p> <ol style="list-style-type: none"> 1. John Cassidy, <i>How Markets Fail: The Logic of Economic Calamity</i>, Ch 1-6, 9-13 2. 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 (20 Sep)	<p>How Financial Markets Fail II</p> <ol style="list-style-type: none"> 1. Adair Turner, Chapters 3-7, 9
4 (27 Sep)	<p>Key Finance and Macroeconomic Concepts</p> <ol style="list-style-type: none"> 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 (4 Oct)	<p><i>Students to submit their summaries of Firefighting before the start of class.</i></p> <p>The Global Financial Crisis: Context and Causes</p> <ol style="list-style-type: none"> 1. Cassidy, Chapters 17-19 2. Turner, Chapter 6 3. Raghuram Rajan (2005), “Has Financial Development Made the World Riskier?” (supplementary)
6 (11 Oct)	<p>The Global Financial Crisis: Consequences</p> <ol style="list-style-type: none"> 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 3. <i>The Inside Job</i>
7 (18 Oct)	<p>Financial Regulation after the Crisis</p> <ol style="list-style-type: none"> 1. The Economist, “The world has not learned the lessons of the financial crisis”, 6 September 2018 2. The Economist, “Lehman ten years on: more has changed than meets the eye”, 6 September 2018 3. Andrew Haldane, “The Doom Loop: Equity and the banking system”, <i>The London Review of Books</i> http://www.lrb.co.uk/v34/n04/andrew-haldane/the-doom-loop Martin Wolf, <i>The Shifts and the Shocks</i>, Chapter 6-7 (supplementary)
8 (25 Oct)	<p>Does financial liberalization promote economic development?</p> <ol style="list-style-type: none"> 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)

<p>9 (1 Nov)</p>	<p>Economic Development after the Global Financial Crisis</p> <ol style="list-style-type: none"> 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
<p>10 (8 Nov)</p>	<p>Mid-term exams in the first two hours of the class</p> <p>China’s Development Model</p> <ol style="list-style-type: none"> 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. The Economist, “China’s industrial policy has worked better than critics think”, 2 Jan 2020
<p>11 (15 Nov)</p>	<p>China’s Development model</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. Jin Keyu, “The Elephant in the Room: An Update on China”, https://www.youtube.com/watch?v=rDg8vu3R0Ok&t=6s, 26 Jan 2018 3. The Economist, “China’s dual-circulation” strategy means relying less on foreigners, 7 Nov 2020
<p>12 (22 Nov)</p>	<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>13 (29 Nov)</p>	<p>Financial Technologies and Economics after the Pandemic</p> <ol style="list-style-type: none"> 1. Bank of International Settlements (2019), “Annual Economic Report”, Chapter 3 2. The Economist, “The covid-19 pandemic is forcing a rethink in macroeconomics”, 25 Jul 2020 3. The Economist, “How to make a social safety-net for the post-covid world”, 6 Mar 2021 4. The Economist, “Covid has transformed the welfare state. Which changes will endure”, 6 Mar 2021