

**Financial Crisis**  
**Common Core CCGL9030**  
**K. S. Maurice Tse**  
**The University of Hong Kong**  
**Fall 2021**  
*E-mail: ktse@hku.hk*

Class hours: Wednesday 4:30 pm – 6:20 pm  
Venue: MWT1  
Demonstrator: Anthony CHEUNG

## **Introduction**

Financial crises are common and occurred quite frequently in market economies. What is a financial crisis and what are its possible causes? Can it be anticipated and hence prevented? What government policies can be implemented to alleviate its impact?

A financial crisis can occur in the form of a currency crisis, a banking crisis or both. For example, the financial crisis in Asia in 1997-1998 was a currency crisis whereas the global crisis in 2008 was a banking crisis. Consider the one in 2008. As a subprime mortgage crisis that started in America in 2008, the crisis speedily mutated into a “systemic risk” threatening the financial system of every advanced and emerging economy. The financial contagion quickly exacerbated the impact of the crisis by transmitting the financial shocks through the interlinked financial markets to the whole global economy.

Sooner than expected, millions of people in different countries lost their jobs and fell into poverty. Almost overnight the entire investment banking industry worldwide was wiped out. The crisis that started out in America has turned into the worst global economic crisis since the Great Depression.

*This course* aims to bring to students an exploratory account of a financial crisis and an understanding of the conceptual underpinnings of the issues that lie at the heart of it. The course will focus on how the financial crisis in 2008 began, how it developed, how the different countries dealt with it with their own politico-economic means and measures, what are the effects on people, and what is its implication for the global economy, and its broader ramifications for our society.

## **Course Intended Learning Outcomes (CILOs)**

On completing the course, students will be able to:

1. Describe the socio-economic background and the possible causes for the financial crisis and explain how the crisis through the different financial and economic channels can reinforce itself and affect other economies in the world.
2. Formulate critical questions and reflections regarding issues of economic development against an understanding that very often our efforts to respond to one problem might lay the foundations for the next.
3. Critically evaluate the effectiveness of the various government policies for the rescue of the faltering economy and assess how these policies in one country can impact others in the global economy.

4. Understand that the elimination of crises, if possible at all, is very costly and hence why crises will almost certainly recur.
5. Assess how the current crisis and the so-called “Currency War” will form and shape the future path of growth and development for the global economy.

<b>Course Learning Outcomes – On completing the course, students will be able to:</b>		<b>Common Core Programme Learning Outcome(s)</b>
1.	Describe the socio-economic background and the possible causes for financial crisis and explain how the crisis through the different financial and economic channels can reinforce itself and affect other economies in the world.	CC PLO(s): 1, 2, 3
2.	Formulate critical questions and reflections regarding issues of economic development against an understanding that very often our efforts to respond to one problem might lay the foundations for the next.	CC PLO(s): 1, 2, 3
3.	Critically evaluate the effectiveness of the various government policies for the rescue of the faltering economy and assess how these policies in one country can impact others in the global economy.	CC PLO(s): 1, 2
4.	Demonstrate understanding that the elimination of crises, if possible at all, is very costly and hence why crises will almost certainly recur.	CC PLO(s): 1, 2, 3, 4
5.	Assess how the crisis in 2008 will form and shape the future path of growth and development for the global economy.	CC PLO(s): 1, 2, 3, 4

## **Textbook and Reading Materials**

There is no required textbook for this course. Reading materials for all topics will be handed out in class and will also be posted on the HKU website for the course. Students are responsible for all materials.

### **1. Required Readings**

The following cases and reading materials will be assigned. The list will be updated as deemed appropriate.

- Alan Greenspan, “The Crisis” Brookings Papers on Economic Activity, Spring 2010
- Julio J. Rotemberg, “Subprime Meltdown: American Housing and Global Financial Turmoil”, Harvard Business School Case, 2008
- V.G. Narayanan, Fabrizio Ferri, Lisa Brem, “The Credit Crisis of 2008: An Overview”, Harvard Business School Case 2010
- David Moss and Cole Bolton, “Fighting a Dangerous Financial Fire: The Federal Response to the Crisis of 2007-2009”, Harvard Business School Case 2011
- John Mathis, Frank Tuzzolino, Venkat Ramaswamy, “Global Financial Crises and the Future of Securitization”, Harvard Business School Case, 2011
- Dante Roscini, Jonathan Schlefer, Konstantinos Dimitriou, “The Greek Crisis: Tragedy or Opportunity”, Harvard Business School Case, 2011
- Benn Steil, “Lessons of the Financial Crisis”, Council Special Report No. 45 March 2009, Center for Geoeconomic Studies

- Huw Pill, Rafael Di Tella, Jonathan Schlefer, “Financial Crisis in Asia: 1997-1998”, Harvard Business School Case 2008
- Arthur I Segel and Ben Creo, “Understanding the Credit Crisis of 2007-2008”, Harvard Business School Background Note 2010
- Joshua Coval, Jakub Jurek, and Erik Stafford, “The Economics of Structured Finance”, Journal of Economic Perspectives Vol 23, Winter 2009, 3-25.
- Fedetic S. Mishkin, “Is Monetary Policy Effective during Financial Crises?” American Economic Review, Papers and Proceedings 2009, 99:2, 573-577

## 2. Recommended Readings

- 13 Bankers: The Wall Street Takeover and the Next Financial Meltdown, SIMON JOHNSON and JAMES KWAK, Vintage Books, 2011.
- “Global Financial Stability Report: Grappling with Crisis Legacies”, International Monetary Fund, September 2011

## 3. Recommended Website(s)

- “Financial Markets”, Open Yale Course by Robert Shiller, Chapters 25 and 26 on Learning from and Responding to Financial Crisis, <http://academicearth.org/courses/financial-markets>.
- “Of subprimes and subsidies: The political economy of the financial crisis.” Bardhan, A. 2008. <http://ssrn.com/abstract=1270196>
- How did economists get it so wrong? Paul Krugman, September 02, 2009, New York Times. <http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?scp=1&sq=how%20did%20economists%20get%20it%20so%20wrong?%20krugman&st=cse>

## Timetable

Date	Topic	Reading Assignments
Sep 01	Introduction	Lecture notes
Sep 08	Bubbles and Crashes	Lecture notes
Sep 15	Causes and Global Consequences of the Crisis	Lecture notes
<b>Sep 22</b>	<b>Day Following Mid-Autumn Festival</b>	
Sep 29	Comparing this Crisis with others	Lecture notes
Oct 06	Process of Securitization	Lecture notes
<b>Oct 13</b>	<b>Reading Week</b>	
Oct 20	Government Policies Dealing with the Crisis	Lecture notes
Oct 27	Implications of the Crisis for the Global Economy	Lecture notes
Nov 03	Implications of the Crisis for Asia and China	Lecture notes
Nov 10	Currency War	Lecture notes
Nov 17	Trade War*	Lecture notes
Nov 24	Special Topic: Pandemic and Economic Crisis	

## Assessment Tasks

Assessment Method	Brief details of Assignment	Weighting
Class participation and tutorial discussions	Students are expected to share, debate, and evaluate issues raised in class as well as in the assigned cases.	10%
Homework and case summaries	Cases are required of all students to read and prepare for discussion in class and in the tutorials. Homework will also be assigned to ensure that students understand the fundamental issues discussed in class.	30%
Group project presentation	Student will be required to work in small groups of six on a project that they choose relevant for the course topics. The presentation encourages students to formulate and communicate their ideas effectively and to put across their point of view in a professional and convincing style.	30%
Take-home test	Take-home exam will test students on their understanding of the key issues discussed in the course.	30%

## Performance Assessment

Grade	Descriptors
A+ A A-	<ul style="list-style-type: none"> <li>All aspects were addressed and researched in great depth.</li> <li>Demonstrates a clear understanding of and the ability to apply and theory, concepts and issues relating to the topic.</li> <li>All aspects conform to a high academic / professional standard</li> </ul>
B+ B B-	<ul style="list-style-type: none"> <li>Most aspects were addressed and researched in depth.</li> <li>Demonstrates a good understanding and some application of the theory and issues relating to the topic.</li> <li>Most aspects conform to a high academic / professional standard.</li> </ul>
C+ C C-	<ul style="list-style-type: none"> <li>Most aspects were addressed and researched adequately.</li> <li>Demonstrates a good understanding of the theory, concepts and issues relating to the topic but limited application relating to the topic.</li> <li>Most aspects conform to an acceptable academic / professional standard.</li> </ul>
D	<ul style="list-style-type: none"> <li>Basic aspects were addressed and researched adequately.</li> <li>Demonstrates mainly description, showing basic understanding of the topic but no application.</li> <li>Limited aspects conform to academic / professional standards</li> </ul>
F	<ul style="list-style-type: none"> <li>Basic aspects were superficial, inadequate or absent.</li> <li>Demonstrates limited understanding of the topic and draws conclusions unrelated to the topic.</li> <li>The written work is not of an academic / professional standard</li> </ul>

## Assessment Rubrics

### Assessment Rubrics for Each Assessment

Assignments: While the detailed assessment rubric may differ slightly across assignments, the criteria of assessment can be broadly divided into two aspects: (1) Appropriateness of Analysis (60%) and (2) Clarity/Readability (40%)

Group Case Report: Students will be given a choice of financial and economic crises to study, analyze and report with power point slides. Performance will be assessed based on (1) justification of arguments, (2) application of the principles and techniques discussed in class in analyzing the problem(s) and forming your angle of view, (3) ability to summarize the results in a professional report.

## Academic Honesty and Integrity

**The University Regulations on academic dishonesty will be strictly enforced. Please check the University Statement on plagiarism on <http://www.hku.hk/plagiarism/>.**

**Cheating or plagiarism of any kind would result in an automatic F grade for the course plus strict enforcement of all Faculty and/or University regulations regarding such behavior. Incident(s) of academic dishonesty will NOT be tolerated.**

Academic dishonesty is a behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

- a. Plagiarism - The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.
- b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort.
- c. Cheating on In-Class Exams - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.
- d. Unauthorized Advance Access to an Exam - The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.