MBA 694-01: THE FINANCIAL DEBACLE OF LAST DECADE: WINNERS AND LOSERS
THE 2008 DEBACLE, OR WHAT EVER HAPPENED TO THE GREAT MODERATION?

COURSE DESCRIPTION

The effects of the “Debacle” persist even today, with high unemployment, slow GNP growth, a struggling housing market, and a “Washington Scene” in gridlock. The widely held assumption by Wall Street, commercial bankers, mortgage brokers, home builders, insurers, etc., of ever-escalating real estate prices in the US provides the formal explanation for the "Debacle." How and why did this gross assumption become a “religion” to so many in the financial markets? What incentives drove the creation of artificial securities loosely based on piles of doubtful mortgages? Who, if anyone, got rich from the “Debacle”? What role did Government play, if any, in the mess? Where did greed fit in—home buyers, home owners, speculators, financial institutions, etc.? Today who bears the burden of the “Debacle,” long after the housing market crashed—the unemployed, the middle class, welfare recipients, college grads looking for jobs? What can we learn from the “Debacle” about “efficient” capital markets, the role of regulation in financial markets, the role of business in American society, and the relationship between the business community and the political process in American society? What can we say about the long-term prospects for the US? Does the "Debacle" and its aftershocks presage the decline of the US and "free market capitalism" and the rise of China and state-directed capitalism?"

GRADING

CLASS DISCUSSION : 25 percent.

FINAL EXAMINATION:  75 percent.

READINGS

REQUIRED:

RECOMMENDED:
Henry Paulson, Jr., On the Brink: Inside the Race to Stop the Collapse of the Global Financial
COURSE OUTLINE

Opening Session:
I. Introduction to Course
II. Assigned Readings for the Course
III. How the “GREAT DEBACLE” happened. Video entitled “Inside Job” will be shown in class.
IV. Assignments: Read "The Dutch Tulip Mania" and begin reading Cowen and Lewis.

Second Session
I. "The Role of Business in American Society: A People of Plenty." Discussion
II. "Free Markets and Regulation in Modern America." Discussion
III. Assignments: Finish Reading Cowen and Lewis.

Third and Fourth Sessions:
I. “Key Players in the Recession of 2008”.
   b. Regulatory Environment
   c. Commercial and Investment Banks
   d. Mortgage Originators/Brokers
   e. Fannie Mae and Freddie Mac (GSEs)
   f. Hedge Funds
   g. Rating Agencies
II. Discussion
III. Assignments: Read Lo and Dennison. Selections from Paulson if time permits.

Fifth and Sixth Sessions
I. “Role of Innovation and Too Big -- or Too Interconnected -- To Fail”.
   a. Regulatory Decline -- Video of "The Flaw."
b. Repeal of Glass-Steagall and adoption of legislation concerning regulation of derivatives
c. CitiGroup-Travelers legislation
d. CDOs, CDO-Squared, Credit Default Swaps, Shorts, SIVs, etc.
e. REPO Market and Shadow Banking
f. The Liquidity Trap
g. Bail-Outs
h. Reform

III. Discussion

IV. Assignments: Read Duncan. Selections from Paulson as time warrants.

**Seventh Session**

I. “The Recession and Its Aftermath”.
   a. Housing Bubble and Aftermath
   b. Bear Stearns, Lehman Brothers, Merrill Lynch
   c. Conservatorship for GSEs and AIG Intervention
d. Credit Freeze and Its Causes and Consequences
e. Unemployment
f. Cause, Proximate and Otherwise?

II. Discussion

III. Assignments: Review Lo, Cowen, Dennison, and Duncan.

**Eighth Session**

I. “The Response”.
   a. Stimulus and Moral Hazard
   b. Government Bankruptcies: General Motors and Chrysler
c. Dodd-Frank Act and Effort to Restore Glass-Steagall
d. Role of GSEs in Restoration of Housing Market
e. Toxic Assets?

II. Discussion

III. Assignments: Selections from Paulson if time permits.

**Ninth Session**

I. “Recession Politics and the Rise of the Tea Party”.
II. “Impact of the Recession on Classes within Society”.
III. “Lessons for the Future”.
IV. Review and discuss Reading Assignments.

**Tenth Session: Final Examination in Class**