STANFORD UNIVERSITY

Bus F332
Finance and Society
Winter 2019

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COURSE DESCRIPTION

This interdisciplinary course explores the economic, political, and behavioral forces that shape the financial system and, through this system, have a major impact on the economy and society. You will gain an in-depth understanding of how the complex interactions between individuals, corporations, governments, and the media can help markets work or, in turn, generate governance failures and inefficiencies. Visitors with varied experiences will enrich our discussions of key questions about the workings of capitalism in liberal democracies.

TEXTBOOK AND SUPPLEMENTARY READINGS

The textbook for the course is:


Additional readings via web links. We will also discuss regularly current events related to the course material.
VISITORS

A number of visitors will join us to enhance the discussion with their rich experience and expertise.

GRADING

Class attendance and participation are important and will be an important part of the grade. We hope to have some good discussions of the issues and our visitors will expect it.

Two short homework assignments will be given, (i) Jan 18 due Feb 1; (ii) Feb 11 due Feb 20.

A final project is due on Tuesday March 19, 2019. The project will involve writing a short paper on one of a number of topics that will be discussed in the course. It can be done in groups of up to three with the following paper length: one person: 8 pages, two people: 15 Pages, three people: 22 pages. Please use double space, 12 pt font, one-inch margin, and references in Chicago manual style. The course grade will be determined by:

- Class participation: 25%
- Two Assignments: 30%
- Final project: 45%
## Schedule

BNC refers to the book *Bankers’ New Clothes*

### Session 1

**Introduction: Why and How Much Finance?**

**Monday, 1-7-19**

**Topics:**

“Big picture:” What is the financial system meant to deliver for society? What is needed for the promise to be delivered and how and why might it fail to do so best? Why is politics important in the context of finance?

**Read:**

BNC Prefaces (both) and Chapter 1.


### Session 2

**Debt and Equity Funding**

**Friday, 1-11-19**

**Topics:**

Household debt; housing; balance sheets, market and book value; corporate funding with debt and equity; the dark side of borrowing: distress and insolvency, private and public equity.

**Read:**

BNC Chapters 2 and 3


[http://www.nytimes.com/2014/11/14/opinion/a-house-is-not-a-credit-card.html?_r=0](http://www.nytimes.com/2014/11/14/opinion/a-house-is-not-a-credit-card.html?_r=0)

### Session 3

**Disclosures and Whistleblowing (case study)**

**(Eric Ben Artzi)**

**Monday, 1-14-19**

**Topics:**

Whistleblowing, disclosure rules, enforcement, revolving door and capture in the legal and regulatory system.

**Read:**

“*Deutsche Bank: Show of strength or a fiction?*” Tom Braithwaite, Michael Mackenzie and Kara Scannell, *Financial Times*
December 5, 2012
https://www.ft.com/content/c3c0b362-3ecf-11e2-a095-00144feabdc0

“Is the SEC Covering Up Wall Street Crimes?” Matt Taibbi, 
Rolling Stone, August 17, 2011

Session 4 Political Institutions and the Financial Sector
Friday, 1-18-19


Read: BNC Chapter 6, pp. 81-94

“Bankers Hate the Volcker Rule. Now, It Could be Watered Down,” Emily Flitter and Alan Rappeport, New York Times, May 21, 2018

https://www.economist.com/britain/2012/12/01/light-touch-no-more

“BoE official warns against return to ‘light-touch’ regulation,” Caroline Binham, Financial Times, February 26, 2017
https://www.ft.com/content/0e36b7fe-fac2-11e6-9516-2d969e0d3b65

Monday, 1-21-19
NO CLASS (MLK holiday)

Session 5 The US Legislative Process
(Graham Steele)
Wednesday, 1-23-19

Topics: Dodd Frank Act, Banking Committee, Brown-Vitter, lobbying, oversight of regulators, policy and personnel, too big to fail.

Read: BNC Chapter 6, pp. 94-99

“Wall Street’s Big Win,” Matt Taibbi, Rolling Stone, August 19, 2010
Session 6
Endowments
(Robert Wallace)

Topics:
University endowments: goals, investment strategies; accountability, governance, socially responsible investing.

Read:
“Author’s Note: Ivy League,” John Authers, Financial Times, November 16, 2017 (until “Macy’s Bursting Balloon”)  
https://www.ft.com/content/77784830-cb24-11e7-ab18-7a9fb7d6163e


“Ethical Investment Framework,” Stanford Management Company, December 2018  

Optional: David Swensen, Pioneering Portfolio Management, revised and updated edition, 2009 (chapters 1 & 2)

Session 7
Hedge Funds, Derivatives, and Systemic Institutions
(Ayman Hindy)

Topics:
Who should bear risks in the financial system? risk management; the hedge fund industry, systemic risk and systemic institutions, will central clearing of derivatives help?

Read:
“Bear Stearns' $500m Call Triggered LTCM Crisis,” The Independent, September 25, 1998  

Session 8
Corporations, Misconduct and Justice
(Jed Rakoff)

Topics:
White color and corporate crime and consequences; individual vs corporate responsibility; deferred settlements; how to hold corporations (and those who control them) accountable to rules to deter social harm? Is enforcement working well and, if not, why and what must be done to improve it?

Read:
BNC, Chapter 13


https://dealbook.nytimes.com/2014/08/05/after-long-fight-judge-rakoff-reluctantly-approves-citigroup-deal/

“Why Corrupt Bankers Don’t Go to Jail,” Patrick Radden Keefe, The New Yorker, July 31, 2017
https://www.newyorker.com/magazine/2017/07/31/why-corrupt-bankers-avoid-jail

Session 9
Sovereign Wealth Funds
(Ole Christian Bech-Moen)

Topics:
Sovereign wealth funds in democracies and non-democracies: goals, investment strategies; accountability, governance, socially responsible investing.

Read:
Watch trailer: www.theoilfund.com

“What's So Funny About $1 Trillion? The Norwegians Who Manage It,” Mikael Holter, Bloomberg, December 16, 2018
NO CLASS (GSB midterms)

Session 10
Monday, 2-11-19

Banking

Topics: Deposits, liquidity, investment banking; universal banks, money market funds; securitization; derivatives; interconnected system, systemic risk

Read: BNC Chapters 4 and 5

“Europe’s banking union lacks the key element of deposit insurance,” Isabel Schnabel, Financial Times, August 28, 2018
https://www.ft.com/content/4a3d048a-a9fb-11e8-8253-48106866cd8a

Session 11
Friday, 2-15-19

Purpose and Governance in Banking (Kat Taylor)

Topics: National vs. local banks: size, goals, regulation; non-profit banking; shareholders vs. stakeholders

Read: BNC, Chapters 8
“Beneficial State Bank: Benefits to All, Harm to None,” Stanford GSB case, pages 1-middle of 10 (Posted on Canvas).

Session 12  
Auditors & Securities Market Regulation  
(Samantha Ross)  
Wednesday, 2-20-19

Topics:
Accounting standards and oversight, conflicts of interest; SEC, disclosures; waivers, enforcement

Read:
“Regulators Draw from Audit Firms,” Kathleen Day, Washington Post, June 7, 2002, [https://www.washingtonpost.com/archive/business/2002/06/07/regulators-draw-from-audit-firms/33bc4988-7a3f-4ed3-93dd-2f08989d6b0b/?utm_term=.0fdb287956b7](https://www.washingtonpost.com/archive/business/2002/06/07/regulators-draw-from-audit-firms/33bc4988-7a3f-4ed3-93dd-2f08989d6b0b/?utm_term=.0fdb287956b7)


“The Big Flaw: Auditing in Crisis,” Jonathan Ford and Madison Marriage, *Financial Times*, July 31, 2018 [https://www.ft.com/content/29ccd60a-85c8-11e8-a29d-73e3d454535d](https://www.ft.com/content/29ccd60a-85c8-11e8-a29d-73e3d454535d)

Session 13  
Corporate Funding  
Friday, 2-22-19

Topics:
Debt and equity, subsidies, “too big to fail”

Read:
BNC, Chapter 7, 9

“This $66bn US bank merger ups ante on rivals to consolidate,” Robert Armstrong and Laura Noonan, *Financial Times*, February 7, 2019 [https://www.ft.com/content/22f5473a-2b28-11e9-a5ab-ff8ef2b976c7](https://www.ft.com/content/22f5473a-2b28-11e9-a5ab-ff8ef2b976c7)

Session 14  
Large Asset Managers and Corporate Governance  
(Sarah Bloom Raskin)  
Monday, 2-25-19

Topics:
Mutual funds and index fund, corporate purpose and governance, the role of asset managers such as Vanguard and BlackRock
Read:


“Vanguard's John Bogle Created More Social Good than any Contemporary in Finance,” JC de Swaan, *Quarz*, January 18, 2019

https://www.nytimes.com/2019/02/18/opinion/index-fund.html

Session 15
Central Banking and Global Finance
Friday, 3-1-19

Topics:
Role and mandate of central banks; central bank independence; Fed, BoE, ECB; global governance; IMF, BIS, EZ banking union; “level playing field” and international competition

Read:
BNC Chapter 10


Session 16
The Role and Challenges of Media
(Jesse Eisinger)
Monday, 3-4-19

Topics:
The role of the media in shaping public perception, culture, and policy; access reporting and investigative journalism; the business of media; current challenges in digital age and with social media.

Read:
“Telegraph's Peter Osborne resigns, saying HSBC coverage a 'fraud on readers’,” John Plunkett and Ben Quinn, *Guardian*
February 18, 2015
https://www.theguardian.com/media/2015/feb/17/peter-oborne-telegraph-hsbc-coverage-fraud-readers

“Germany’s regulator bans short-selling in Wirecard,” The Economist, February 21, 2019


Session 17
Friday, 3-8-19

Capital Regulations and the Case of Greece

Topics: Basel 2 and 3, poor design and performance, and the relevant politics, the continued debate, Greece case study.

Read: BNC, Chapter 11

http://www.ft.com/cms/s/0/9eb70126-54af-11e6-befd-2fc0c26b3c60.html - axzz4SBCnnyUq

Letter to Senate Banking Committee, Anat R. Admati, John H. Cochrane, Paul Pfleiderer and Amit Seru, September 25, 2018

Session 18
Monday, 3-11-19

Central Banks and Global Finance
(Kevin Warsh)

Topics: Central banks as regulators, observations about the financial system.

Read: BNC, Chapter 12
Session 19
Friday, 3-15-19

Topics:
How and why corporate and political governance are connected; management education, corporate purpose and governance, are capitalism and democracy in crisis and if so, why and what to do?

Read:
“Financial crises, corporate scandals and blind spots: who is responsible?” Anat Admati, LSE Business Review, January 25, 2018

“I Covered the City for 20 Years --- Here is What I Learned,” Sarah Gordon, Financial Times, March 7, 2019
https://www.ft.com/content/c2102d6e-3ea9-11e9-9bee-efab61506f44?shareType=nongift