

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:

The Bankers' New Clothes: What's Wrong with Banking and What to Do about It, Admati, Anat and Martin Hellwig, Princeton University Press, 2013 (paperback 2014).

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

Monday, 1-7-19

Introduction: Why and How Much Finance?

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.

“My Speech to Finance Graduates,” Robert Shiller, *Project Syndicate*, May 22, 2012

<https://som.yale.edu/news/news/robert-shiller-addresses-finance-graduates>

“Jeb Hensarling and the Allure of Economism,” James Kwak, *Baseline Scenario*, December 20, 2016

<https://baselinescenario.com/2016/12/20/jeb-hensarling-and-the-allure-of-economism/>

Session 2

Friday, 1-11-19

Debt and Equity Funding

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

“A House is Not a Credit Card,” Bethany McLean, *New York Times*, November 13, 2014

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

Session 3

Monday, 1-14-19

Disclosures and Whistleblowing (case study) (Eric Ben Artzi)

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
<http://www.rollingstone.com/politics/news/is-the-sec-covering-up-wall-street-crimes-20110817>

Session 4
Friday, 1-18-19

Political Institutions and the Financial Sector

Topics: Lobbying, capture, rent-seeking. Presidential vs. parliamentary systems. Cases: Volcker Rule, UK post-crisis regulation.

Read: BNC Chapter 6, pp. 81-94

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

<https://www.nytimes.com/2018/05/21/business/volcker-rule-fed-banks-regulation.html>

“Light Touch No More – Britain’s Financial Regulators Are Getting Much Tougher,” *The Economist*, Dec 1, 2012
<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
Wednesday, 1-23-19

The US Legislative Process (Graham Steele)

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

<https://www.rollingstone.com/politics/politics-news/wall-streets-big-win-190723>

“Killing the Volcker Rule,” Lee Reinders, The FinReg Blog (Duke Law Global Financial Markets Center), January 11, 2017
<https://sites.duke.edu/thefinregblog/2017/01/11/killing-the-volcker-rule>

Session 6

Friday, 1-25-19

Endowments

(Robert Wallace)

Topics:

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

Read:

“Auther’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>

“Stop Universities From Hoarding Money,” Victor Fleischer, *New York Times*, August 19, 2015
<https://www.nytimes.com/2015/08/19/opinion/stop-universities-from-hoarding-money.html>

“Ethical Investment Framework,” Stanford Management Company, December 2018
<https://smc.stanford.edu/wp-content/uploads/2018/12/SMC-Ethical-Investment-Framework.pdf>

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

Session 7

Monday, 1-28-19

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
<http://www.independent.co.uk/news/business/bear-stearns-500mcall-triggered-ltcm-crisis-1200636.html>

“The Epic Story Of How A 'Genius' Hedge Fund Almost Caused A Global Financial Meltdown,” Stephanie Yang, *Business Insider*, July 10, 2014

<https://www.businessinsider.com/the-fall-of-long-term-capital-management-2014-7>

Session 8

Friday, 2-1-19

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

“Judge Jed Rakoff courageously rejects SEC-Citigroup settlement,” James Downy, *Washington Post*, October 28, 2011

https://www.washingtonpost.com/blogs/post-partisan/post/judge-jed-rakoff-courageously-strikes-down-sec-citigroup-settlement/2011/11/28/gIQAIpaS5N_blog.html

“Judge Rakoff Says 2011 S.E.C. Deal With Citigroup Can Close,” Ben Protess, *New York Times*, August 5, 2014,

<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

Monday, 2-4-19

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

<https://www.bloomberg.com/news/articles/2018-12-16/what-s-so-funny-about-1-trillion-the-norwegians-who-manage-it>

“Yngve Slyngstad: Decision Time For Norway’s Oil Fund,”
Richard Milne, *Financial Times*, 30 October 2018
<https://www.ft.com/content/200fed0c-5923-38f9-86a8-cb43a8163964>

“How Not to Run a Sovereign Wealth Fund,” Sony Kapoor,
Bloomberg View, December 3, 2017
<https://www.bloomberg.com/view/articles/2017-12-04/how-not-to-run-a-sovereign-wealth-fund>

Optional (but recommended for background plus a good story):
“The Iraqi Who Saved Norway From Oil,” Martin Sandbu,
Financial Times, August 28, 2009
<https://www.ft.com/content/99680a04-92a0-11de-b63b-00144feabdc0>

Friday, 2-9-18

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

Wednesday, 2-20-19

Auditors & Securities Market Regulation (Samantha Ross)

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

“The Dozy Watchdogs,” Dan Rosenheck, *The Economist*, December 13, 2014

<http://www.economist.com/news/briefing/21635978-some-13-years-after-enron-auditors-still-cant-stop-managers-cooking-books-time-some>

“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>

Session 13

Friday, 2-22-19

Corporate Funding

Topics:

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

Read:

BNC, Chapter 7, 9

“\$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>

Session 14

Monday, 2-25-19

Large Asset Managers and Corporate Governance (Sarah Bloom Raskin)

Topics:

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

Read: “The Great Bank Escape.” Anat Admati, *Project Syndicate*, December 31, 2012
https://admati.people.stanford.edu/sites/g/files/sbiybj1846/f/the_gr eat_bank_escape_by_anat_admati_-_project_syndicate.pdf

“Vanguard's John Bogle Created More Social Good than any Contemporary in Finance, JC de Swaan, *Quarz*, January 18, 2019
<https://qz.com/1527689/vanguards-john-bogle-created-more-social-good-than-any-contemporary-in-finance/>

“What’s Really in Your Index Fund?” Robert J. Jackson Jr. and Steven Davidoff Solomon, *New York Times*, February 18, 2019
<https://www.nytimes.com/2019/02/18/opinion/index-fund.html>

Session 15
Friday, 3-1-19

Central Banking and Global Finance

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

“Populism Is Shaking the Edifice of Central Bank Independence,” Bloomberg, February 26, 2017 (reprinted Atlanta Journal Constitution) <https://www.ajc.com/news/populism-shaking-the-edifice-central-bank-independence/pbofuZ2qEybjcTDufN6h0I>

“A debate about central-bank independence is overdue,” The Economist, October 20, 2018 <https://www.economist.com/finance-and-economics/2018/10/20/a-debate-about-central-bank-independence-is-overdue>

Session 16
Monday, 3-4-19

The Role and Challenges of Media
(Jesse Eisinger)

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

<https://www.economist.com/finance-and-economics/2019/02/23/germanys-regulator-bans-short-selling-in-wirecard>

“How Mark Zuckerberg's Altruism Helps Himself” Jesse Eisinger, *New York Times*, December 3, 2014

<https://www.nytimes.com/2015/12/04/business/dealbook/how-mark-zuckerbergs-altruism-helps-himself.html>

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

“IMF Swayed by Politics During Eurozone Crisis, Say Inspectors,” Arthur Beesley, *Financial Times*, July 28, 2016

<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

<https://admati.people.stanford.edu/sites/g/files/sbiybj1846/f/admati-cochrane-pfleiderer-seru-letter-9-25-2018.pdf>

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

“Telling Strength from Weakness,” Gretchen Morgensen, *New York Times*, April 29, 2012

<http://www.nytimes.com/2012/04/29/business/big-banks-need-more-transparency-fed-ex-governor-says.html>

“Are You Ready for the Financial Crisis of 2019?” Alex Williams, *New York Times*, December 10, 2018

<https://www.nytimes.com/2018/12/10/style/2019-financial-crisis.html>

Session 19

Friday, 3-15-19

Reflections on Finance and Society

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

<http://blogs.lse.ac.uk/businessreview/2018/01/25/financial-crises-corporate-scandals-and-blind-spots-who-is-responsible/>

“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>