COURSE DESCRIPTION

This interdisciplinary course explores the economic, political, and cultural forces that shape the financial system and, through this system, have major effects on the economy and on society. You will gain an understanding of how the interactions between individuals, corporations, governments, and the media can help the financial system and the economy work better or in turn allow those with better information and control to harm others unnecessarily. Topics include the basic principles of investment and funding, corporations and their governance, financial markets and institutions, and political and ethical issues. We will discuss recent and ongoing news events and analyses immediately relevant to the material. The approach will be rigorous and analytical but not overly mathematical. A few visitors will further enrich the discussion.

TEXTBOOK AND SUPPLEMENTARY READINGS

The required textbooks for the course are


Additional materials will be online sources or put on reserve in the library. We will also discuss regularly current events related to course material, and students should try to follow the news on issues around the financial system, financial regulation, etc.

**ATTENDANCE AND CLASS ENGAGEMENT**

Students should attend class and read assigned materials prior to class. Class participation grades will reflect attendance and quality of contribution to the discussion in the top 15 class sessions (out of 17). *Participation is particularly important for those sessions when we have visitors.* The visitors can provide insights and opportunities to engage that are invaluable and which cannot be easily replicated.

To improve engagement and class participation, we will use Poll Everywhere technology. Please register at [https://www.polleverywhere.com/](https://www.polleverywhere.com/) using your correct student name as in Stanford directory, download the Poll Everywhere App (for use in class) and respond to surveys and polls when prompted.

**REVIEW SESSION**

Course Assistant will lead review sessions on Fridays during the same time as class to allow for more discussion and review and to go over problem sets and assignments. Attending the sessions is strongly recommended. Please sign up for the Piazza course in the first week of the quarter [here](#).

**GRADING**

There will be 5-7 problem sets or short assignments; students can work on those in small groups and turn in the problem sets via Gradescope. Gradescope access code is 9GE835. In addition, there will be a midterm exam and a final exam. These will be held as follows:

- **Midterm exam: in class on Wednesday, Feb. 6, 2019.**
- **Final exam: Wednesday, March 20, 2018, 3:30-6:30 pm.**

*Please note these times and consult teaching staff as soon as possible regarding any conflicts or accommodations you may need by the end of Week 2 of the quarter.*

The course grade will be determined by:

- Class participation: 20%
- Problem sets/Assignments: 20%
- Midterm exam: 20%
- Final exam: 40%
## Schedule

BNC refers to *Bankers New Clothes*, HSM refers to *How to Speak Money*

<table>
<thead>
<tr>
<th>Session 1</th>
<th>Introduction: Why and How Much Finance?</th>
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<tbody>
<tr>
<td>Monday, 1-7-19</td>
<td>Course overview; what is finance about? Who are the participants? How does everyone interact with the system?</td>
</tr>
<tr>
<td>Read:</td>
<td>HSM: pp. 3-30</td>
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<thead>
<tr>
<th>Session 2</th>
<th>Time and Money</th>
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<tbody>
<tr>
<td>Wednesday, 1-9-19</td>
<td>Why does money have “time value?” interest rates; future and present value, financial decisions.</td>
</tr>
<tr>
<td>Read:</td>
<td>HSM: Interest rates, Inflation, Deflation, Bond, Compound interest, Hyperinflation, Real and nominal, 72.</td>
</tr>
<tr>
<td></td>
<td>“Note on the Time Value of Money” (posted on Canvas).</td>
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<table>
<thead>
<tr>
<th>Session 3</th>
<th>Risk, Insurance, and Diversification</th>
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<tbody>
<tr>
<td>Monday, 1-14-19</td>
<td>Random variables and expected value, insurance and “hedging;” reducing risk by diversification; prices and returns; risk premium.</td>
</tr>
<tr>
<td>Read:</td>
<td>HSM: Hedge (pp 21-22), Insurance, Securities, risk, yield, hedge.</td>
</tr>
</tbody>
</table>
“What Republicans, Democrats Aren't Telling You About Repealing the Individual Mandate,” Robert Pearl, Forbes, December 5, 2017  
https://www.forbes.com/sites/robertpearl/2017/12/05/individual-mandate/#141d955964e0


Session 4  
Monday, 1-16-19  
Borrowing and Risk  
Topics:  
Mortgages; corporations; balance sheets and limited liability; leverage and risk, raising equity, the dilution fallacy, payouts.

Read:  
BNC: Chapter 2  
HSM: Balance sheet, Mortgage, No-recourse loan, Limited liability, Equities, Rights issue

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

Monday, 1-21-19  
MLK holiday

Session 5  
Wednesday, 1-23-19  
The Dark Side of Borrowing  
Topics:  
Default and the bankruptcy process; liquidity problems, student debt; insolvency, distress, conflicts of interest, debt overhang, risk-shifting.

Read:  
BNC: Chapter 3.  
HSM: Bankruptcy, Default, Chapter 11, Haircut, Insolvent, Holes in the balance sheet; Restructuring, Student loans;

“Is Debt Overhang Causing Firms to Underinvest?” Filippo Occhino, Federal Reserve Bank of Cleveland, July 10, 2010  
Session 6  Banking Basics  
Monday, 1-28-19  
Topics:  
Commercial banks and central banks; deposits and payment system; loans; risks in banking; bank runs; deposit insurance;  
Read:  
BNC: Chapter 4, Chapter 10, pp. 148-158  
HSM: Bank of England, Banking Union, Cajas, Central banks, ECB, Extend and pretend, Federal Reserve, Fiat money, Lender of last resort, Quantitative easing (QE), Reserve currency, SMEs, ZIRP, Zombie bank  
“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  
Watch:  
That Movie about Money  
https://www.youtube.com/watch?v=pfXiA_zTfxY

Session 7  Systemic Risk and the Financial Crisis  
Wednesday, 1-30-19  
Topics:  
Securitization, investment banks; derivatives and other innovations; the interconnectedness of the system; financial crises and systemic risk.  
Read:  
BNC: Chapter 5.  
HSM: Black Scholes, Credit Default Swap (CDS), Derivatives, Investment Banks, Interest Rate Swaps, Repo, Options, OTC, Prop trading, Securitization, Shadow Banking, Synthetic, Traders, analysts & quants.  
Session 8  Markets, Information, and Governance
(Visitor: Fahmi Quadir)
Monday, 2-4-19
Topics:  The purpose and control of corporations; hedge funds; long and short positions in financial markets, fraud.
Read:  HSM: Stocks and shares, Shareholder value, Greater Fool theory, Hot money, Long and short, Mr. Market
“Short Seller Who Foresaw Valeant Crash Now Bets on Tesla Falling,” Tatiana Darie, Bloomberg News, October 9, 2018

Session 9  Midterm (material through Session 7)
Wednesday, 2-6-19

Session 10  Introduction to the Politics of Banking
(Visitor: Graham Steele)
Monday, 2-11-19
Topics:  Was the 2007-2009 crisis preventable? Can laws and regulations help prevent future crises and, if so, how?
Read:  BNC: Chapters 6
HSM: Externalities; Deregulation, City of London, Glass Steagall, Reform, Regulatory, Volcker rule, Bullshit vs nonsense, Nationalization, Moral Hazard, Rent.

Session 11  The Economics of Equity Funding in Markets
Wednesday, 2-13-19
Topics:  Debt and equity funding in financial markets, book and market values, managerial incentives.
Read:  BNC, Chapter 7 and 8
Monday, 2-18-19  
President Day holiday

Session 12  
The Role and Regulation of Auditors  
(Visitor: Samantha Ross)

Topics  
Accounting standards and auditors; regulation of auditors; 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.ft.com/content/29ccd60a-85c8-11e8-a29d-73e3d454535d

Session 13  
Subsidies in Banking and Corporate Governance  
(Visitor: Sarah Bloom Raskin)

Topics:  
Debt subsidies, too-big-to-fail, corporate purpose and governance.

Read:  
BNC Chapter 9


“Vanguard's John Bogle Created More Social Good than any Contemporary in Finance," JC de Swaan, Quarz, January 18, 2019
Session 14
The Role of the Media
Wednesday, 2-27-19
Topics:
The role of media in informing and educating the public, why and how media can become distorted; comparing finance and tech.
Read:
“Telegraph's Peter Oborne resigns, saying HSBC coverage a 'fraud on readers','” John Plunkett and Ben Quinn, Guardian, February 18, 2015
http://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

“Why we need to regulate the tech platforms,” Rana Foroohar, Financial Times, November 5, 2017,
https://www.ft.com/content/84f402ac-bfc0-11e7-b8a3-38a6e068f464

Session 15
Capital Regulations and Global Politics
Monday, 3-4-19
Topics:
Capital regulations (levels, calibration, equity substitutes, measurements), level playing field and national champions
Read:
BNC, Chapter 12 (Chapter 11 optional)


“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

Letter to Senate Banking Committee, Anat R. Admati, John H. Cochrane, Paul Pfleiderer and Amit Seru, September 25, 2018
Session 16
Institutional Investors and Financial Markets
(Guest: Jay Kang)

Wednesday, 3-6-19

Topics:
Institutional investor types including asset managers, endowments, sovereign wealth funds. How individuals can invest.

Read:
HSM: Asset Allocation, Arbitrage, EFFs, Fundamentals, Graham, Ben (1894-1976),

“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


(Optional) “Melting pot,” Tom Buerkle, Reuter Breaking Views, February 20, 2019
https://www.breakingviews.com/features/university-endowments-are-study-in-u-s-inequality/

Session 17
Financial Market and Technology

Monday, 3-11-19

Read:
HSM: High-Frequency Trading, Hot money, Manias, panics, and crashes. Bitcoin and digital assets

“Bitcoin was not a Bubble, until it was,” Spencer Jacob, Wall Street Journal, December 14, 2018
https://www.wsj.com/articles/bitcoin-wasnt-a-bubble-until-it-was-11544783400

“U.S. SEC Stops 'Munching' Munchee's ICO After Registration Concerns Raised,” Roger Aitken, Forbes, December 12, 2017

“Sen. Brian Schatz introduces a new bill to tax stock trades and curb high-frequency trading,” Emily Stewart, Vox, March 5, 2019
Session 18
Conclusion: Making Finance Work for Society
Wednesday, 3-13-19

Topics:
Summary of the key ideas and what they might mean to your interactions with the financial system in your future personal and professional life; fiduciary rule.

Read:
BNC prefaces, Chapter 13 (Chapter 1 optional)


“Financial Crises, Corporate Scandals and Blind Spots: Who is Responsible?” Anat Admati, London School of Economics Blog, January 25, 2018

(Optional) “Wells Fargo Says Its Culture Has Changed. Some Employees Disagree,” Emily Flitter and Stacy Cowley, New York Times, March 9, 2019