

STANFORD UNIVERSITY

GSBGEN 538 POWER IN FINANCE Winter 2021

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Office Hours: Wednesdays, 2:30-4 pm (link on Canvas)

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EXPANDED COURSE DESCRIPTION

There is a growing sense that both capitalism and democracy are in crisis. How do power structures in the private and public sectors determine economic and political outcomes? Is the focus on financial metrics and markets to blame for the eroding trust in corporations and governments? This interdisciplinary course explores these issues by developing in-depth understanding of the interactions between individuals, corporations, and governments that shape economic and political systems and their evolution. Topics will include the power of media, culture and corporate governance, corporate and investor power, the role of watchdogs, the special power of central banks, whistle-blowers and the justice system. Visitors with extensive relevant experiences and discussions of current events will enrich each class.

The course will draw on multiple fields in the social sciences and in the business school but we will pay particular attention to issues around legal rights and responsibilities, both in the context of corporate governance and in political systems and government institutions. The institutional design and the writing and enforcement of the rules of the game have a major impact on the incentives of everyone who is involved in the system and on the ultimate outcomes. We will maintain the big picture perspective as we delve into some of the critical details where “the devil” often lie

COURSE FORMAT

The course will be conducted virtually over Zoom, but the teaching team will make efforts to make the experience as engaging, meaningful, educational, and memorable as possible. To allow more engagement during class sessions, including with visitors, and with only 9 relatively short sessions and much to discuss, we will pre-record a few background lecture segments that you will be asked to watch before some sessions and which will also be useful for working on the assignment.

We ask that students have their video on during class (and microphone muted when not speaking). Please communicate with the teaching team if your situation might prevent you from joining with a video or participating in the live classes. We will call on some of those who submit input prior to class (see below on participation), but more generally please be prepared to be “warm called” and use Zoom chats to indicate that you would like to ask a question or make a comment in class. Teaching staff will alert students who are about to be called to speak so they can unmute themselves.

All course materials and links will be available on Canvas under the appropriate module.

We recognize that in this unprecedented period students may be facing a wide variety of unusual and possibly difficult circumstances. We commit to being flexible, reasonable, and creative as necessary with all student circumstances, and ask you to communicate with us in honesty and good faith.

VISITORS

Visitors will provide insights and opportunities to engage that are invaluable and not easily found elsewhere. Engaging with visitors will include submitting questions for them in advance as well as during sessions when visitors are present. Visitors will typically spend 40-60 minutes with us. We will ask you to read the visitors’ bios and try to call on students to ask questions. Visitors will come from varied backgrounds and will bring to life and put faces on many of the issues we discuss.¹

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 that should be available for free. We will discuss regularly current events related to the course material.

RESPECT FOR DIVERSITY AND SUPPORT SERVICES

We commit to present materials and activities that are respectful of diversity, which may include but not limited to: gender, sexuality, disability, age, socioeconomic status, ethnicity, race, religion,

¹ This version of the course does not include visitors’ names to protect their privacy. We hosted visitors who engaged with students for the last 30-40 minutes of each of the session except for the last one. Students had access to additional information about the visitors and an opportunity to submit questions for visitors prior to class as well as during class.

political affiliation, culture, and so on.

Stanford is committed to advancing the mental health and well-being of every student, and there are many resources available to you should you need help. If you, or someone you know is feeling overwhelmed, depressed, and/or in need of support, you can learn more about the broad range of confidential mental health services available on campus [here](#).

Please feel free to reach out to the teaching team with any concern on these issues or if there is any way for us to be helpful.

GRADING

Class attendance, participation, and broader engagement will be an important part of the grade. Engagement will include not just active participation in class discussion but also by submitting comments and questions ahead of class (using forms linked in the syllabus). We also encourage informal engagement on Canvas Discussion, by email, and in office hours with instructors.

Two written assignments will be given during the course, one due **Saturday February 27** at 11:59 pm PST, and the second on **Thursday, March 18** at 11:59 pm PST. (Let us know if you need more time for the second assignment.)

The course grade will be determined by:

Class participation:	30%
Assignments (overall)	70%

Schedule

Assignments are subject to change; always check Canvas for any updates

BNC refers to the book *Bankers' New Clothes*

Session 1

Friday, 2-12-21

Power in Finance: Introduction and Key Themes

Topics:

Introduction: the financial system, government bodies and sources of power; housing policies; racial injustice

Read/Watch:

BNC two prefaces, Chapters 2-3 and pre-recorded video 1

[“What do the data reveal about \(the absence of Black\) financial regulators?”](#) Chris Brummer, Brookings, September 2, 2020 (the conclusion, p. 27-28 is required, the rest of the paper is optional)

Optional reading:

BNC Chapter 1

Session 2

Wednesday, 2-17-21

Legal Power

Topics:

White collar law enforcement, consequences of wrongdoings and misconduct for individual and corporations; fines and settlements

Read:

BNC Chapter 13

[“Judge Rakoff Says 2011 S.E.C. Deal With Citigroup Can Close,”](#) Ben Protess, *New York Times*, August 5, 2014 ([library link](#))

[“Milton Friedman and the Need for Justice,”](#) Anat Admati, ProMarket, October 5, 2020 (reprinted [GSB Insight](#))

Session 3

Friday, 2-19-21

Political Power

Topics:

Banking and the global financial system, the crisis of 2007-2009, political systems, financial regulations, lobbying, capture, and rent-seeking.

Read/Watch:

BNC Chapters 4-5 and pp. 81-87; Pre-recorded videos 2 and 3

[“As Banks Retreat from Fossil Fuels, a Trump Regulator Says 'Stop',”](#) Lorraine Woellert and Victoria Guida, *Politico* January 18, 2021.

Session 4

Friday, 2-22-21

Investor Power

Topics:

The asset management sector, hedge funds, trading, long and short selling, managers and investors, corporate fraud and accountability.

Read/Watch:

Pre-class video 4

[“Comment to BaFin about the Ban on Short-Selling Wirecard Stock,”](#) Fahmi Quadir, March 15, 2019

[“Wirecard: Scandal Spreads to German Politics,”](#) Guy Chazan and Olaf Storbeck, *Financial Times*, September 28, 2020

[“‘This is the Way’: the Reddit Traders who Took on Wall Street’s Elite,”](#) Eric Platt, Colby Smith, Madison Darbyshire, Alice Kantor, Robin Wigglesworth, *Financial Times*, January 29, 2021

Session 5

Friday, 2-26-21

Central Banks: Apex of Power

Topics:

What do central banks do? Central banks in the financial crisis, governance at the Federal Reserve, ECB, etc., cryptocurrencies, central banks as regulators

Read/Watch

BNC Chapter 9 and pp. 148-153; pre-recorded videos 5 and 6

[“Fed Caught in Political Crosshairs over Bailout Role,”](#) James Politi, *Financial Times*, April 24, 2020

[“US Treasury Refuses to Extend Some of Fed’s Crisis-Fighting Tools,”](#) James Politi and Colby Smith, *Financial Times*, November 19, 2020

Optional reading:

BNC pp. 153 through Chapter 12

Session 6

Monday, 3-1-21

Whistleblowers

[\(Eric Ben Artzi\)](#)

Topics:

Whistleblowing, whistleblower laws, disclosure rules, enforcement, revolving doors, and justice.

Read:

[“Deutsche Bank: Show of strength or a fiction?,”](#)

Tom Braithwaite, Michael Mackenzie and Kara Scannell, *Financial Times*, December 5, 2012

[“How One Stubborn Banker Exposed a \\$200 Billion Russian Money-Laundering Scandal.”](#) Bradley Hope, Drew Hinshaw and Patricia Kowsmann, *Wall Street Journal*, October 23, 2018

Session 7

Friday, 3-5-21

The Power of Watchdogs

Topics: Securities laws, SEC, accounting and auditing rules, PCAOB, the Big Four accounting firms, and recent scandals.

Read/Watch: BNC pp. 95-99 and Chapters 7-8; pre-recorded video 7

Listen: [“A String of Scandals, the Same Auditor,”](#) The Journal Podcast episode, October 19, 2020

Session 8

Monday, 3-8-21

Media Power

Topics: The role of the media in exposing reality, shaping public perception, culture, and policy, and helping to hold power to account. Investigative reporting.

Read: [“Wirecard and me: Dan McCrum on exposing a criminal enterprise.”](#) Dan McCrum, *Financial Times*, September 2, 2020

[“Wirecard: Inside an Accounting Scandal,”](#) Dan McCrum and Stefania Palma, *Financial Times*, February 7, 2019

Session 9

Friday, 3-12-21

Reflections on Power in Finance

Topics: Reflections on what we learned, some missing pieces, what do you take away?

Read: [“I Covered the City for 20 Years --- Here is What I Learned.”](#) Sarah Gordon, *Financial Times*, March 7, 2019

[“Why Financialized Corporate Governance Works Poorly”](#) Anat Admati, Harvard Law School Forum on Corporate Governance and Financial Regulation, August 9, 2017

Prepare: Reflect on the questions in [this form](#).