ECON5130
Financial Systems and the Economy

Course Outline
Semester 2, 2015

Part A: Course-Specific Information

Students are also expected to have read and be familiar with Part B Supplement to All Postgraduate Course Outlines. This contains Policies on Student Responsibilities and Support, Including Special Consideration, Plagiarism and Key Dates. It also contains the Business School PROGRAM LEARNING GOALS.
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JOHN CASSIDY, RICHARD KOO, KEN ROGOFF - DEBTS, DEFICITS AND GLOBAL FINANCIAL STABILIT 11

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1 STAFF CONTACT DETAILS

Lecturer-in-charge: Dr Elisabetta Magnani
Room: Business School, Blue Wing Room 468
Phone No: 9385 3370
Email: e.magnani@unsw.edu.au

1.1 Communication with Staff
Consultation Times – TBA

You should feel free to contact your lecturer(s) about any academic matter. However, I strongly encourage, for efficiency, all enquiries about the subject material be made at lectures or tutorials or during consultation time.

Email correspondence on administrative matters (e.g. advising inability to attend lecture/tutorial) will be responded to within 48 hours, but not over weekends. Please note that the lecturer has no advance notice of the date and time of the exam (the subject of many emails).

2 COURSE DETAILS

2.1 Teaching Times and Locations
Lectures start in Week 1 (to Week 12) and are two hours followed by a tutorial. The time and location is: Monday 1-4pm, Business School 205.

2.2 Units of Credit
The course is worth 6 units of credit.

2.3 Summary of Course

The financialization of the economies across the globe, with the unprecedented influence of capital markets and their intermediaries that this process has involved, has had increasingly visible effects on households and firms since the 1980s. Financial development has drastically increased the borrowing and savings opportunities of households, firms have now wider investment opportunities, and financial integration has drastically changed the growth patterns in East Asia and China. However, there is also an increasing awareness that because of financial integration and development agents and economies’ performances are now deeply interlinked and subject to greater economic volatility than in the past.

This subject will provide the basis for an exploration of how financial markets impact upon the macroeconomic environment and its “real” outcomes. It will explore the functioning of financial markets and how they shape behaviours, constraints and opportunities in key economic areas that households, firms, financial intermediaries and policy makers operate in. In so doing, this subject will provide a key contribution to students’ understanding of current economic debates on the role of finance and financial institutions and how best to deliver positive economic outcomes.
2.4 Aims and Relationship to Other Courses

ECON5130 is an elective subject in the Master of Commerce at UNSW. It requires a basic understanding of Macroeconomics theories and facts.

2.5 Student Learning Outcomes

The Course Learning Outcomes are what you should be able to do by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

For more information on the Postgraduate Program Learning Goals and Outcomes, see Part B of the course outline.

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed:

<table>
<thead>
<tr>
<th>Program Learning Goals and Outcomes</th>
<th>Course Learning Outcomes</th>
<th>Course Assessment Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>This course helps you to achieve the following learning goals</td>
<td>On successful completion of the course, you should be able to:</td>
<td>This learning outcome will be assessed in the following items:</td>
</tr>
<tr>
<td>1 Knowledge</td>
<td>Demonstrate understanding of interconnections among finance and the economy.</td>
<td>• Tutorial and Lecture Participation</td>
</tr>
<tr>
<td></td>
<td>Identify the problems arising from the functioning of financial markets and intermediaries.</td>
<td>• Tutorial Questions and Tutorial Participation</td>
</tr>
<tr>
<td></td>
<td>Demonstrate understanding of how firms, household, financial intermediaries and policy makers interact to shape the interconnection between finance and the economy discussed in this subject.</td>
<td>• Midterm</td>
</tr>
<tr>
<td></td>
<td>Provide argument for a sound policy intervention that alleviates some of the problems arising from volatility of real and financial markets.</td>
<td>• Assignment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Final Exam</td>
</tr>
<tr>
<td>2 Critical thinking and problem solving</td>
<td>Evaluate the evolution of financial markets with mature economies.</td>
<td>• Tutorial and Lecture Participation</td>
</tr>
<tr>
<td></td>
<td>Evaluate the costs of unregulated financial markets.</td>
<td>• Tutorial Questions and Tutorial Participation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Midterm</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Assignment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Final Exam</td>
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</tbody>
</table>
3 LEARNING AND TEACHING ACTIVITIES

3.1 Approach to Learning and Teaching in the Course
The philosophy underpinning this course and its Teaching and Learning Strategies are based on “Guidelines on Learning that Inform Teaching at UNSW”. These guidelines may be viewed at: www.guidelinesonlearning.unsw.edu.au. Specifically, the lectures, tutorials and assessment have been designed to appropriately challenge students and support the achievement of the desired learning outcomes. A climate of inquiry and dialogue is encouraged between students and teachers and among students (in and out of class). The lecturers and tutors aim to provide meaningful and timely feedback to students to improve learning outcome.

3.2 Learning Activities and Teaching Strategies
The examinable content of the course is defined by the references given in the Lecture Schedule, the content of Lectures, and the content of the Tutorial Program.

Lectures
The purpose of Lectures is to provide a logical structure for the topics that make up the course; to emphasize the important concepts and methods of each topic, and to provide relevant examples to which the concepts and methods are applied.

Tutorials
Tutorials are an integral part of the subject. Tutorial discussion questions will build on the material discussed in class with the lecturer.
Out-of-Class Study
While students may have preferred individual learning strategies, it is important to note that most learning will be achieved outside of class time. Lectures can only provide a structure to assist your study, and tutorial time is limited.

An “ideal” strategy (on which the provision of the course materials is based) might include:

- Reading of the relevant chapter(s) of the text and any readings before the lecture. This will give you a general idea of the topic area.
- Attendance at lectures. Here the context of the topic in the course and the important elements of the topic are identified. The relevance of the topic should be explained.
- Attending tutorials and attempting the tutorial review questions.

4 ASSESSMENT

4.1 Formal Requirements
In order to pass this course, you must:

- achieve a composite mark of at least 50 out of 100; and
- make a satisfactory attempt at all assessment tasks (see below); and
- achieve a satisfactory level of performance in the final exam. This means a minimum mark of 50 per cent in the final exam. Any student having an overall mark of 50 or more but less than 40 per cent in the final examination will be given an UF grade (unsatisfactory fail).

4.2 Assessment Details

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Weighting</th>
<th>Length</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutorial Presentation</td>
<td>10%</td>
<td>See 4.5 and 4.5.1 During tutorial meetings</td>
<td>Revised Answers are due one week after problem set handed out. Students’ revised tutorial answers must be ready for uploading on Moodle.</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>20%</td>
<td>See 4.4 below 1 hour</td>
<td>Week 7 (during lecture time)</td>
</tr>
<tr>
<td>Group Assignment</td>
<td>20%</td>
<td>See 4.6 and 4.6.1 below</td>
<td>Due at the beginning of Week 13</td>
</tr>
<tr>
<td>Final Exam</td>
<td>50%</td>
<td>See 4.7 below 2 hours</td>
<td>University Exam Period</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td></td>
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</tbody>
</table>
4.3 Tutorial Participation

It is UNSW requirement that students attend their tutorials at least 80% of the times. Attendance at 9 of 12 tutorials will be deemed as meeting the requirement. Students must sign on by 10 minutes from start of tutorial to qualify as ‘in attendance’. Signing on for another student will be treated as misconduct.

4.4 Midterm Exam

There will be a mid-session exam in week 7 during class time. The exam will be 60 minutes in length. The exam will cover material from Week 1 to Week 5, all included. Details of the time and place will be posted on the course website.

There will be NO supplementary tests offered for the mid-session exam. You should make every effort to take the mid-session exam. Students who fail to attend the examination will need to apply for Special Consideration.

Applications for special consideration for the mid-session exam must be lodged online through myUNSW within 3 working days of the exam. (Log into myUNSW and go to My Student Profile tab > My Student Services channel > Online Services > Special Consideration. Then submit the originals or certified copies of your completed Professional Authority form and any supporting documentation to Student Central.

In cases of serious illness or misadventure (e.g., the onset of labour the day before the exam), students will need full and convincing documentation of that illness or misadventure. Students who are found to have been genuinely too ill or otherwise indisposed to have attended the exam will have their mark in the remaining assessment tasks (i.e., the problem sets, assignment and the final examination) re-weighted to include the mark reserved for the missed test. In all other cases of non-attendance, students will receive a grade of zero.

Employment obligations or holiday plans of any kind are not acceptable reasons for an absence from any test or examination.

4.5 Assessments for Tutorial Discussion Questions

There will be 12 tutorial meetings. In each weekly meeting students will be asked to come prepared to present their work in front of their peers. Tutorial presentations will be scheduled during lecture time in Week 1. If a student fails to present at the agreed date, there will be no other chance to present unless his/her misfortune is fully documented. The problem sets will be provided for each week’s tutorials via Moodle.

The tutorial discussion will provide feedback about a student’s presentation. Each student should take good care of using the presentation feedback and comments to revise his/her answers after presenting them to the class. This is a good practice to learn how to improve students’ work by listening and following feedback.

A student’s written submission (PowerPoint) will need to provide me with details on how s/he has addressed the comments received during his/her oral presentation. This can be done via email by clearly doing the following:

(i) By indicating what the comment/criticism was received during the tutorial presentation;

(ii) By explaining how the written answers have addressed this issue.
These details, together with the written submission and the student’s oral presentation will provide the basis for the tutorial assessment.

4.5.1 Tutorial Discussion Questions Submission Procedure
Submission details for problem sets will be provided in class. Roughly speaking, Students’ answers should be submitted by the end of the week in which a student’s presentation took place.

Submissions should include your full name and student number and should be sent in pdf via email. It is your responsibility to keep an extra copy of the problem sets in case the original is lost or corrupted.

4.5.2 Late Submission
If you fail to submit your problem set at the time it is due, you will be given a mark of zero.

4.6 Assignment
You will also have to complete an assignment which tests how well you can apply models and concepts learnt in this class to real world problems. Details of the assignment will be provided in class. This assignment will be due at the end of the term.

4.6.1 Late Submission of Assignment
If you fail to submit your assignment before the deadline you will be given a mark of zero.

4.7 Final Exam Format
The final exam will consist of 5 to 6 questions. These questions/problems will be based on the lectures. As outlined in 3.2 above all material covered in the lectures and tutorial program is examinable.

4.8 Quality Assurance
The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential and will not be related to course grades.

5 COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process is one of the ways in which student evaluative feedback is gathered. You are strongly encouraged to take part in the feedback process.
6 COURSE RESOURCES
The website for this course is on UNSW Moodle at: http://moodle.telt.unsw.edu.au


Other texts we will use in this subject are:


Financialization at Work: Key Texts and Commentary, Routledge 2008


Financialization and the World Economy Gerald A. Epstein, Edward Elgar Publishing Ltd 2006

Financialisation in Crisis. Volume editor Costas Lapavitsas, Brill 2012

7 COURSE SCHEDULE

7.1 Lecture Schedule

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Starting on</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Topic 1: Starting on July 27th</td>
<td>Finance and the Economy in an Historical Perspective</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Topic 2: Starting on August 3rd</td>
<td>Macroeconomic theory of Finance</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Topic 3: Starting on August 10th</td>
<td>Finance and the Economy-the Role of Expectations</td>
<td></td>
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<tr>
<td>4</td>
<td>Topic 4: Starting on August 17th</td>
<td>Finance and the Economy-the Role of Credit</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Topic 5: Starting on August 24th</td>
<td>Finance and the Economy-Financialization</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Topic 6: Starting on August 31st</td>
<td>Finance and the Firm-Part I</td>
<td></td>
</tr>
</tbody>
</table>

Week 7 (starting on September 7th):
Mid-Session Exam during lecture time (one hour).
There will be a shorter lecture this week
Midterm exam (all material from Week 1 to Week 5 included)

<p>| Week 7 | Topic 7: Starting on September 7th | Finance and the Firm-Part II |</p>
<table>
<thead>
<tr>
<th>Week 8</th>
<th>Topic 8: Starting on September 14th</th>
<th>Finance and the Household-Part I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 9</td>
<td>Topic 9: Starting on September 21st</td>
<td>Finance and the Household-Part II</td>
</tr>
</tbody>
</table>

Mid-Session Break: September 26 to October 5 inclusive
Lectures will not take place in this period

Part III: Finance and the Economy: Policy Perspectives

Week 10

October 5 is a public holiday

<table>
<thead>
<tr>
<th>Week 11</th>
<th>Topic 11: Starting on October 12th</th>
<th>Financialization, the Labour Markets and Inequality</th>
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<tbody>
<tr>
<td>Week 12</td>
<td>Topic 12: Starting on October 19th</td>
<td>Financialization and its Discontent: the Current Policy Debate</td>
</tr>
</tbody>
</table>

7.2 Lecture description and required readings

Week 1: Finance and the Economy in an Historical Perspective

TAK, chapters 8 and 9

Jones C.I., Macroeconomics, The Great Recession: an Overview, Chapters 9 and 10

The global economic crisis: labour market impacts and policies for recovery in Asia / Gyorgy Sziraczki, Phu Huynh and Steven Kapsos; ILO Regional Office for Asia and the Pacific. -Bangkok: ILO, 2009

Perils of Price Deflations: An Analysis of the Great Depression, Federal Reserve Board of Cleveland, 2001


Week 2: Macroeconomic theory of Finance

Modern Financial Macroeconomics, Panics, Crashes, and Crises, by T.A. Knoop (TAK), Blackwell Publishing, 2008, chapters 3 and 4

J. R. Hicks, Econometrica, 1937, pp. 147-159, Mr. Keynes and the "Classics"; A Suggested Interpretation


Week 3: Finance and the Economy-the Role of Expectations
The Financial Instability Hypothesis: An Interpretation of Keynes and an Alternative to "Standard" Theory
Author(s): HYMAN P. MINSKY, Challenge, Vol. 20, No. 1 (MARCH/APRIL 1977), pp. 20-27


Week 4: Finance and the Economy-the Role of Credit


Week 5: Financialization

http://ineteconomics.org/blog/inet/satyajit-das-cultural-transformation-world-finance

Eckhard Hein, “A (Post) Keynesian perspective on ‘financialisation’” (Macroeconomic Policy Institute (IMK) at Hans Boeckler Foundation, Duesseldorf) (only sections 1 and 2)


Krippner G., The financialization of the American economy, Socio - Economic Review; May 2005; 3, 2; p. 173


Weeks 6 and 7: Finance and the Firm


FINANCING CONSTRAINTS AND FIXED-TERM EMPLOYMENT CONTRACTS*
Andrea Caggese and Vicente Cunat, Economic Journal 2008 (idea + empirical testing, no section two)


BORROWING FROM EMPLOYEES: WAGE DYNAMICS WITH FINANCIAL CONSTRAINTS, Claudio Michelacci and Vincenzo Quadrini, working paper (only the idea of why wages may be impacted upon by finance constraints)

**Weeks 8 and 9: Finance and the Household**


Aspects of Australia’s Finances, Ric Battellino, Reserve Bank of Australia Bulletin, 2010

**Week 10: Financialization and the Labour Markets**

**Week 11: Financialization and Inequality**


### Week 12: Financialization and its Discontent: the Current Policy Debate


The Global Economic Crisis after One Year: Is a New Paradigm for Recovery in Developing Countries Emerging? WIM NAudÉ Policy Brief, number 2, 2009
United Nations University

John Cassidy, Richard Koo, Ken Rogoff - Debts, Deficits and Global Financial Stabilit
https://www.youtube.com/watch?v=Bczer-1QwNU

What is quantitative easing?
http://www.bankofengland.co.uk/monetarypolicy/pages/qe/default.aspx

### 7.3 Tutorial Schedule

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic 1: Starting on August 3rd</th>
<th>Finance and the Economy in an Historical Perspective</th>
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<tbody>
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<tr>
<td></td>
<td><strong>Part II: Finance and the Economy: A Microeconomic Perspective</strong></td>
<td></td>
</tr>
<tr>
<td>Week 4</td>
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<td>Finance and the Economy-the Role of Credit</td>
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<tr>
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<td>Topic 6: Starting on September 7th 7th</td>
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<td>Topic 7: Starting on September 14th</td>
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<td>Topic 8: Starting on September 21st</td>
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<table>
<thead>
<tr>
<th>Week 11</th>
<th>Topic 10: Starting on October 12th</th>
<th>Finance and the Household-Part II</th>
</tr>
</thead>
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<td>Week 12</td>
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<td>Financialization, Labour Markets and Inequality</td>
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