

ECON5130

Financial Systems and the Economy

Course Outline

Semester 2, 2017

Course-Specific Information

The Business School expects that you are familiar with the contents of this course outline. You must also be familiar with the Course Outlines Policies webpage which contains key information on:

- Program Learning Goals and Outcomes
- Academic Integrity and Plagiarism
- Student Responsibilities and Conduct
- Special Consideration
- Student Support and Resources

This webpage can be found on the Business School website:

<https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>

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1 STAFF CONTACT DETAILS

Lecturer-in-charge: Dr Kris Iyer

Room: TBC

Email: k.iyer@unsw.edu.au

Mobile: 0420 262 548

Consultation Times: Wednesdays 2pm-3pm, 6pm-7pm

1.1 Communication with Staff

Feel free to contact me 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 I have no advance notice of the date and time of the final 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 of one hour.

The time and location is: Wednesday 3-6pm, Business School 130.

All the in-class assessments including the mid term exam and the group presentations will be held in the tutorials.

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. If your principles of

macroeconomics is rusty, you are strongly encouraged to review basic macroeconomics before starting this course.

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 Program Learning Goals and Outcomes, see the School's Course Outlines Policies webpage available at <https://www.business.unsw.edu.au/degrees-courses/course-outlines/policies>.

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

Program Learning Goals and Outcomes		Course Learning Outcomes	Course Assessment Item
<i>This course helps you to achieve the following learning goals</i>		<i>On successful completion of the course, you should be able to:</i>	<i>This learning outcome will be assessed in the following items:</i>
1	Knowledge	<p>Demonstrate understanding of interconnections among finance and the economy.</p> <p>Identify the problems arising from the functioning of financial markets and intermediaries.</p> <p>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.</p> <p>Provide argument for a sound policy intervention that alleviates some of the problems arising from volatility of real and financial markets.</p>	<ul style="list-style-type: none"> • Group presentation and Lecture Participation • Midterm Exam • Group Assignments • Final Exam
2	Critical thinking and problem solving	<p>Evaluate the evolution of financial markets with mature economies.</p> <p>Evaluate the costs of unregulated financial markets.</p>	<ul style="list-style-type: none"> • Group presentation and Lecture Participation • Midterm Exam • Group Assignments • Final Exam
3a	Written communication	Construct economic arguments and written work which are logically and professionally presented.	<ul style="list-style-type: none"> • Midterm Exam • Group Assignments • Final Exam
3b	Oral communication	Communicate ideas in a succinct and clear manner.	<ul style="list-style-type: none"> • Group presentation
4	Teamwork	Evaluate the costs and benefits of using teams.	<ul style="list-style-type: none"> • Group Assignments

5a.	Ethical, environmental and sustainability considerations	Appreciation of an understanding of the real (economic and social) effects of financial markets and intermediation in unregulated environments and participate in sound discussion on how best to achieve socially desirable outcomes from the interaction between finance and the economy	<ul style="list-style-type: none"> • Group presentation and Lecture Participation • Midterm Exam • Group Assignments
5b.	Social and cultural awareness	Understanding of the cultural aspect of value creation in financial markets and how these cultural factors may impact upon financial markets volatility and vulnerability.	<ul style="list-style-type: none"> • Group presentation and Lecture Participation • Group Assignments

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. The focus of the tutorials will be the presentations by the students and the post-presentation discussions.

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. In an advanced topic like this, I can only provide a structure and basic concepts to assist your study, and tutorial time is limited.

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

- If your principles of macroeconomics is rusty, you definitely need to review basic macroeconomics before your classes start.
- 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 will be explained.
- Attending tutorial presentations in an active way.

4 ASSESSMENT

4.0 You must complete the “Working with Academic Integrity” module on your Moodle site, before you hand in any written work.

- You **MUST** complete the ‘Working with Academic Integrity’ module AND THE MODULE’S QUIZ, found on your course Moodle site, **BEFORE YOU ARE ALLOWED TO SUBMIT ANY WRITTEN ASSESSMENT.**
- If your submission is delayed because you did not complete the module and the quiz, you may be liable to late penalties as specified in your course outline.
- Failing to comply with the University rules of Academic integrity may result in serious consequences:
 - All cases of plagiarism (regardless of their severity) ARE recorded with the University Integrity Office University register.
 - Depending on the level of the plagiarism/misconduct, the penalties may include a FAIL grade for the assessment piece, a FAIL grade for the course, or being expelled for serious/repeat offences.

Any misconduct, including plagiarism, is recorded on your Conduct Record. If you have only one academic misconduct at the lowest level (level A) in your career, then the record is wiped clear when you graduate. Otherwise it remains there permanently. *Many professions, such as accounting and law, require access to the student’s Conduct Record.*

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.

4.2 Assessment Details

Assessment Task	Weighting	Length	Due date
Midterm Exam	20%	1 hour	Week 6 (in the tutorial)
Group Written Assignment and Presentation (x 2)	20% x 2 = 40% (10% x 2 for the presentation and 10% x 2 for the written assignment)	40 minutes for each presentation	Two presentations and two written submissions, due date varies by group. To be published on moodle.
Final Exam	40%	2 hours	University Exam Period

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 6 during tutorial time. The exam will be 60 minutes in length. The exam will cover material from Week 1 to Week 4, all included. Details of the time and place will be posted on the course website. **The exam will include short answer questions.**

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. For information on Special Consideration please refer to the Business School's [Course Outlines Policies webpage](#).

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 event (e.g., the onset of labour the day before the exam), students will need full and convincing documentation of that illness or event. 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 Group assignment and presentations

The group assignment commences in Week 3 and will test how well you can apply models and concepts learnt in this class to real world policy problems. Details of the assignment will be further discussed in the class.

Essentially, in groups of three to five students (to be determined depending on the class size), students will review a published journal article or working paper relevant to the lecture material. Tentatively, there will be five groups (A – E) and each group will present two papers in the weeks indicated below:

Group A: Weeks 4 and 9

Group B: Weeks 5 and 10

Group C: Weeks 6 and 11

Group D: Weeks 7 and 12 (second hour of the lecture of week 12)

Group E: Weeks 8 and 12 (tutorial of week 12)

Assignment to groups will be done in Week 1 using a random number generator. To illustrate my expectations from the group work:

Group A will spend Wednesday to Saturday of Week 2 contemplating and reviewing journal articles relevant to Week 1's Wednesday lecture. They will bring to me three journal articles for approval on the Wednesday of Week 3. After my approval, Group A will develop a power point presentation with extensive notes (approximately 1,000 words) on the approved

article(s). They will email me the power point file by the Monday of Week 4 and deliver the presentation in front of their peers on the Wednesday of Week 4.

The presentation should cover the technical material in the paper and link the material to relevant news and policy debates published in popular media. The group members will be required to field questions from their peers and the lecturer post their presentation.

A short paper of 2,000 words on the key concepts and policy issues covered in the presentation should be submitted via moodle by the Saturday of Week 4.

If you fail to present and upload your assignment when it is due, you will be given a mark of zero.

4.6 Final Exam Format

The final exam will consist of two sections. There will be short analytical questions and essay type questions. These questions/problems will be based entirely on the lectures and tutorial discussion. All material covered in the lectures and tutorial program is examinable.

4.7 Protocol for viewing final exam scripts

The UNSW Business School has set a protocol under which students may view their final exam script. Please check the protocol [here](#).

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 myExperience Survey Tool 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>

The textbook for this course is:

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

Other texts we will use in this subject are:

Stockhammer, Engelbert. "5 Financialization, income distribution and the crisis." *Financial Crisis, Labour Markets and Institutions* (2013): 98.

Financialization at Work: Key Texts and Commentary, Routledge 2008

Capital in the Twenty-First Century [Thomas Piketty](#), Harvard University Press, 201

A Short History of Financial Euphoria [John Kenneth Galbraith](#), Penguin Books, 1994
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

Part I: Finance and the Economy: A Macroeconomic Perspective		
Week 1	<i>Topic 1: Starting on July 24th</i>	<i>Finance and the Economy in an Historical Perspective</i>
Week 2	<i>Topic 2: Starting on July 31st</i>	<i>Macroeconomic theory of Finance</i>
Week 3	<i>Topic 3: Starting on August 7th</i>	<i>Finance and the Economy-the Role of Expectations</i>
Week 4	<i>Topic 4: Starting on August 14th</i>	<i>Finance and the Economy-the Role of Credit</i>
Part II: Finance and the Economy: A Microeconomic Perspective		
Week 5	<i>Topic 5: Starting on August 21st</i>	<i>What is Financialization?</i>
Week 6 (starting on August 29th): Mid-Session Exam during the tutorial (one hour). Midterm exam (all material from Topic 1 to Topic 4 are included in this test)		
Week 6	<i>Topic 6: Starting on August 28th</i>	<i>Finance and the Firm-Part I</i>
Week 7	<i>Topic 7: Starting on September 4th</i>	<i>Finance and the Firm-Part II</i>
Week 8	<i>Topic 8: Starting on September 11th</i>	<i>Finance and the Household-Part I</i>
Week 9	<i>Topic 9: Starting on September 18th</i>	<i>Finance and the Household-Part II</i>
Mid-Session Break: September 23 to October 2 inclusive Lectures will not take place in this period		
Part III: Finance and the Economy: Policy Perspectives		
Week 10	<i>Topic 11: Starting on October 3rd</i>	<i>Financialization, the Labour Markets and Inequality</i>
Week 11	<i>Topic 12: Starting on October 9th</i>	<i>Financialization and its Discontent: the Current Policy Debate</i>

Week 12	Topic 13: Starting on October 16 th	Summary of Topics, bringing together the learnings.
Week 13	NO LECTURES	

7.2 Lecture description and required readings

Week 1: *Finance and the Economy in an Historical Perspective*

Review material:

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

Assigned readings:

TAK, chapters 8 and 9

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

From the media

1929: The Great Depression, Part I

https://www.youtube.com/watch?v=bCEJ65H_1XE

<http://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article>

Week 2: *Macroeconomic theory of Finance*

Review material:

Jones C.I., Macroeconomics, The Great Recession: an Overview, Chapters 11

Assigned readings:

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

[Fisher, Irving](#) (1933), "[The Debt-Deflation Theory of Great Depressions](#)", [Econometrica](#)

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

From the media

What happens when a country goes bankrupt?

<https://www.youtube.com/watch?v=3PZDLG-rtGs>

Week 3: *Finance and the Economy-the Role of Expectations*

Assigned readings:

The Financial Instability Hypothesis: An Interpretation of Keynes and an Alternative to "Standard" Theory, HYMAN P. MINSKY, *Challenge*, Vol. 20, No. 1 (MARCH/APRIL 1977), pp. 20-27

Rutherford, Malcolm. "Rational expectations and Keynesian uncertainty: a critique." *Journal of post Keynesian economics* (1984): 377-387.

A Short History of Financial Euphoria [John Kenneth Galbraith](#), Penguin Books, 1994, Main Library Level 5 S 332.645/48 , "1929" Chapter 6.

From the media

Epstein on Debt Burden in the US

http://therealnews.com/t2/index.php?option=com_content&task=view&id=31&Itemid=74&jumival=8875

John Cassidy, "Are speculative bubbles good?"

<http://www.newyorker.com/news/john-cassidy/are-speculative-bubbles-good>

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

Assigned readings:

When Credit Bites Back: Leverage, Business Cycles, and Crises, Òscar Jordà, Moritz HP. Schularick, and Alan M. Taylor, NBER Working Paper No. 17621, November 2011

Modern Financial Macroeconomics. Panics, Crashes, and Crises, by T.A. Knoop (TAK), Blackwell Publishing, 2008, chapters 5 and 6

Week 5: What is Financialization?

Assigned readings:

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

Theorizing financialization, Costas Lapavitsas, *Work, Employment Society*, 2011, issue 25, page 611.

Weeks 6 and 7: Finance and the Firm

Assigned Readings

Carreira C., Silva F., (2010), NO DEEP POCKETS: SOME STYLIZED EMPIRICAL RESULTS ON FIRMS' FINANCIAL CONSTRAINTS, *Journal of Economic Survey*

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

Hanka, G., (1998), Debt and the terms of employment, *Journal of Financial Economics* 48

Weeks 8 and 9: Finance and the Household

Assigned Readings:

Households and Debt in Consumer Age: source of growth, risk of collapse, *Capitalism and Society*, 2008, vol.3, issue 2, Cynamon and Fazzari.

Changing Household Financial Opportunities and Economic Security, Dynan K.E, Journal of Economic Perspectives, 2009

Rising household debt: Its causes and macroeconomic implications—a long-period analysis, Aldo Barba and Massimo Pivetti, Cambridge Journal of Economics, 2009

Household Borrowing Behavior, Ellis Connolly and Daisy McGregor, Reserve Bank of Australia Bulletin, 2011

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

"The Disappearing Defined Benefit Pension and Its Potential Impact On the Retirement Incomes of Baby Boomers", Barbara A. Butrica, Howard M. Jams, Karen E. Smith, and Eric J. Toder, Social Security Bulletin * Vol. 69 * No. 3 * 2009

From the Media:

Steve Keen on Australian Household Debt

<https://www.youtube.com/watch?v=L1ApJvhP-ZI>

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

Assigned Readings:

John Peters (2011): The Rise of Finance and the Decline of Organised Labour in the Advanced Capitalist Countries, *New Political Economy*, 16:1, 73-99

Wages and Human Capital, in the U.S. Financial Industry: 1909-2006, Thomas Philippon, Ariell Reshef, *Quarterly Journal of Economics*, 2013

Financialisation and Income Inequality in OECD Nations: 1995-2007, BASAK KUS, *The Economic and Social Review*, Vol. 43, No. 4, Winter, 2012, pp. 477–495

Week 11: *Financialization and its Discontent: the Current Policy Debate*

Review Material

Romer, D., Short run fluctuations, 2013, The Liquidity trap, section IV-3. **Assigned**

Assigned Readings:

Blanchard, O., and J. Sheen, *Macroeconomics*, Edition 4, Chapter 9, pp 212-215 (about liquidity trap), *Main Library (S 339/282 D)*

When Credit Bites Back: Leverage, Business Cycles, and Crises, Òscar Jordà, Moritz HP. Schularick, and Alan M. Taylor, NBER Working Paper No. 17621, November 2011 (introduction, conclusions and Tables 3 and 5)

[Financial Liberalisation and Economic Development: An Assessment](#) Journal of Economic Surveys, Volume 18, Issue 3, July 2004, Pages: 231–265, Paul Auerbach and Jalal Uddin Siddiki

From the Media

John Cassidy, Richard Koo, Ken Rogoff - Debts, Deficits and Global Financial Stability

<https://www.youtube.com/watch?v=Bczer-1QwNU>

What is quantitative easing?

<http://www.economist.com/blogs/economist-explains/2015/03/economist-explains-5>

<http://www.bankofengland.co.uk/monetarypolicy/pages/qe/default.aspx>