

## Syllabus

Class 1: Introduction & Overview

Class 2: Bubbles and financial regulation

1. The anatomy of the American Subprime Crisis
  - a. What is a subprime loan?
  - b. Collateralized debt obligations (CDOs) and other tokens of lawyers' creativity
  - c. The role of securitization, or: on how to encourage loans to NINJAs
  - d. Who said such a CDO was "risk free"? Credit-rating agencies and other "experts" (or why we should still trust the wisdom of our grandmas)
2. How unusual is the American subprime crisis?
  - a. Antecedents of bank runs: Or why Charles Kindlerberger is at the very least a great story teller
  - b. The "run on repos": more of the same?
3. The Crisis and its discontents
  - a. How did the subprime crisis contaminate the international financial system? Financial spillovers in times of globalized capital
  - b. The turmoil spreads from Wall Street to Main Street: modern economics is credit economics
4. Brazil and other contents, or: Of Schadenfreude and other inappropriate emotions
  - a. The tale of the Brazilian heroic regulator, or: trashing Greenspan, Ayn Rand and other market-friendly devils
  - b. The tale of the Brazilian lucky regulator, or: Why success has many fathers while failure is an orphan
  - c. Towards a synthesis
5. The blame game
  - a. Blaming bankers: Long life to puritan virtues (or: as the queen says, "complacency")
  - b. Blaming investors: An essay on human nature (or: on remembering Gordon Gekko's visionary words)
  - c. Blaming the politicians and the political system: Believers and cynics
  - d. Blaming the regulators: Long life to technocracy (and siding with Arrow over Pauly)
  - e. Blaming the economists: Back to methodology (or: why should we trust economists?)
  - f. Blaming capitalism: The rich vs. the poor (or: why capitalism never solves its problems)
  - g. Blaming Society: Fixing everything at the same time

6. Conclusion: Depression, racism and centrism under threat.
  - a. Whether crises are economic or moral, regulatory responses are strictly political
  - b. Beware of simplistic explanations: ideology transforms truly complicated enigmas into childish questions with obvious answers

Class 3: Banking regulation between semantics and action

1. What is a bank? A functional approach
  - a. The basic concept: Intermediation and transaction services
  - b. The bank as a device to reduce transactions costs and its basic activities:
    - i. Access to a payment system
    - ii. Asset transformation
    - iii. Risk management
    - iv. Information processing
  - c. The ecology of banking
    - i. Commercial banks: On demand deposits
    - ii. Investment banks: proprietary, underwriting, market making, advisory, etc.
    - iii. International Financial Institutions (IFIs)
    - iv. Development banks
  - d. Quasi-bank entities: Hedge funds and other hard questions
2. Why regulate banks? The rationales
  - a. The ideological debate, or: what if financial regulation was like a soccer game
  - b. The centrist position: Standard rationales for regulation of banks
    - i. Systemic risk
    - ii. Consumer protection
    - iii. Considerations of equity
    - iv. Other considerations
    - v. Monetary policy (Employment, inflation & speculation)
  - c. Can regulators instill ethics and morality?
3. The puzzle of finding a workable legal definition
  - a. Brazilian law: from minimalism to maximalism
  - b. Other legal strategies: a brief exercise in comparative law
  - c. Towards a synthesis: Regulatory technique is the offspring of politics, constrained by law
4. Conclusion: political realities matter but there is no need to surrender to the tyranny of political economy

Class 4: Big is beautiful? The problematics of size in the financial industry

1. Why growing is a good idea for any business?
  - a. Diversification
  - b. Market power
  - c. Economies of scale
  - d. Economies of scope

2. The peculiar role of reputation in the banking industry, or: why bankers like art
3. Don't we all hate our creditors? Conjectures on credit and legal certainty
  - a. Is credit the devil? Thoughts on usury
  - b. A pragmatic compromise with modernity: if you need a lender, make him a pariah, reduce legal certainty and threaten him with a criminal persecution...
  - c. ... but beware of the costs of doing so
4. Wouldn't you want to control the expenditures of the guy you're lending to?
  - a. The upside: everything is gonna be all right
    - i. Doug North's tale of fiscal revolution: the Bank of England in the 17<sup>th</sup> century
    - ii. A tale of benevolent capture
  - b. The downsides: *quis custodiet ipsos custodes?*
    - i. Capture
    - ii. Privileged information
    - iii. Cronyism
5. Dealing with size and systemic risk
  - a. Antitrust Law as a compromise between conservatives and radicals
  - b. In defense of banking consolidation
    - i. Greater diversification
    - ii. Greater profitability
    - iii. Lower monitoring costs
    - iv. Lower competition as a plus
  - c. Against banking consolidation
    - i. The drama of "too big to fail"
    - ii. Cronyism
    - iii. Opacity of large banks
    - iv. Lower competition as a minus
6. Policy at the crossroads of politics and institutions
  - a. Tales of banks and competition
    - i. The Medici Bank
    - ii. National champions, rescues and & public banks in Brazil
    - iii. Citi, UBS and other multinationals
  - b. Antitrust in the Brazilian financial industry
    - i. Two competing jurisdictions: Antitrust Authority (CADE) and the Central Bank of Brazil
    - ii. Judicial review, new developmentalism and the decision to not decide
7. Conclusion: now we're all too big to fail

Class 5: Of inflation and other demons: What is a Central Bank good for?

1. Money: between convention and fiat
2. Banks and money creation (or: why your bank deposit not really a deposit)
3. Central banks and the multiplier effect and cyclicity: the obvious and the non-obvious
4. Structures and laws:
  - a. The institutionalization of financial regulation in Brazil

- b. The dubious role of courts
- 5. Conclusion: The regulatory structure is an emerging order; but it has long-lasting national structures

Class 6: Dealing with crises

- 1. Regulatory Technique
- 2. The geographic dimension “in life”
- 3. The geographic dimension “in death” (because banks are global in life and national in death)
- 4. Beyond technocracy: Law as a background topic
- 5. How one crisis paves the way to the next one
- 6. Conclusions: regulatory technique is historically contingent; but financial crises are the midwives of change

Class 7: Systemic Regulation of Global Trade and Finance: A Tale of Two Systems

- 1. International financial regulation
- 2. International trade regulation
- 3. Conclusion:
  - a. The channels of interdependence depend on the monetary and exchange rate arrangements
  - b. The interdependence of open national economies has made it difficult for national governments to promote full employment and price stability