

## SYLLABUS

<b>Name of the course:</b>	Financial instability and international regulation			
<b>Teacher:</b>	Gary Dymski and Odile Lakomski			
<b>University / organisation:</b>	University of Leeds (Gary Dymski) Université de Picardie - Jules Verne (Odile Lakomski)			
<b>Language of teaching:</b>	English			
<b>ECTS:</b>	4 ECTS			
<b>Semester (S1, S2, S3 or S4):</b>	<input type="checkbox"/> S1	<input type="checkbox"/> S2	<input checked="" type="checkbox"/> S3	<input type="checkbox"/> S4
<b>Teaching method(s):</b>	<input checked="" type="checkbox"/> Lecture courses		<input type="checkbox"/> Flipped classroom	
	Other: _____			
<b>Type(s) of evaluation:</b>	<input type="checkbox"/> Sitting exam		<input checked="" type="checkbox"/> Written report	
	<input type="checkbox"/> Oral defence		<input type="checkbox"/> Group project	
	Other / comments: A 8-10 pages Term paper. Possibility for the students to work in pairs.			
<b>Expected deadline(s) for the evaluation(s):</b>	December 20			
<b>Expected date of final results:</b>	January 31			
<b>Summary of the content:</b>	<p>The objective of this course is to get students to understand the main mechanisms behind financial instability (viewed as an <i>endogenous phenomenon</i> in the history of capitalist economies). In Part 1 of our course, we introduce a theoretical framework that combines some basic micro/behavioral concepts with Minskyan/fragility ideas. While financial crises may reveal common features in the course of economic history, we attach particular importance to the <i>specific institutional framework of capitalism as it was configured in the mid-1980s</i>: financialization, liberalization, globalization and increased competition in banking and finance at both a national and international level. We show how evolving patterns of banking activity are at the heart of financial instability problems (especially systemic risk). Then, Part 2 of the course presents an overview of regulatory issues: the identification of the main actors and institutions at both national and international level, as well as the forms of regulation. We consider, in this context, the strong limits, dead-ends and dilemmas that accompany chronically confront efforts to fairly and efficiently regulate finance. Part 3 examines how financial practices and institutions have changed in the post-2008 period, and the challenges these changes imply for regulators. Part 4 explicitly examines the relationship between the shifting macro-financial environment and developing-economies' steadily deepening financial crises.</p>			

## SYLLABUS

<p><b>Indicative list of lectures:</b></p>	<p><b>Part 1: Why must the financial sphere be regulated? (O. Lakomski and G. Dymski)</b></p> <p><b>Micro/behavioral dimensions and the endogeneity of risk and instability</b></p> <ul style="list-style-type: none"> <li>• Behaviour of actors, cognitive rationality, mimetic and speculative behaviour</li> <li>• Informational asymmetries in banking - systemic risk</li> <li>• Financial innovation, competition and the search for high yields</li> <li>• Lessons from Minsky's work : the Financial Instability Hypothesis</li> </ul> <p><b>Financial and macroeconomic evolution in real historical time</b></p> <ul style="list-style-type: none"> <li>• The emergence of financial capitalism: Liberalism; dismantling of the regulation of the 1930s;</li> <li>• Shareholder capitalism and the problem of short-termism</li> <li>• Rising risks and uncertainties and the growth of derivatives markets, hedging, and speculation: the race for profitability</li> <li>• Cross-border imbalances and macroeconomic policies: implications for global financial flows and financial regulation</li> <li>• Securitization and shift from bank-based to market-based credit</li> <li>• Monetary policy, financial stability, and financial crisis</li> </ul> <p><b>Part 2: How to regulate? (O. Lakomski)</b></p> <p><b>Financial regulation: theoretical aspects and concrete measures</b></p> <ul style="list-style-type: none"> <li>• The evolution of different approaches over time: from micro to macro prudential regulation</li> <li>• Reinforcing banks' capital: Basel capital ratios</li> <li>• Managing short-term and structural liquidity risk, systemic risk, containing leverage and induced financial risk</li> <li>• The separation of banking activities in question</li> <li>• Too big to fail and moral hazard</li> <li>• Corporate governance of banks</li> </ul> <p><b>Continuing design challenges in regulation: limits, dead-ends, and dilemmas</b></p> <ul style="list-style-type: none"> <li>• When has the regulation gone far enough, or too far?</li> <li>• Lobbying and capture</li> <li>• The problem of shadow banking and complexity in financial networks</li> <li>• Financial innovations: will regulation always be late?</li> </ul>
--	---

## SYLLABUS

	<p><b>Part 3: The Post-2008 landscape of financial regulations (O. Lakomski and G. Dymski)</b></p> <p><b>New supranational regulatory institutions and mechanisms</b></p> <ul style="list-style-type: none"> <li>• International regulation before and after the Great Financial Crisis: from Basel III to the Financial Stability Board and G-20</li> <li>• European structures and financial regulation: the European Commission’s Capital Markets Union and the ECB Banking Supervision</li> </ul> <p><b>New financial practices and new regulatory challenges</b></p> <p>The challenge of regulating radical new technologies - fintech, crypto currencies, and digital money</p> <ul style="list-style-type: none"> <li>• Post-crisis shadow banking, and the transformation of liquidity and money markets: rehypothecation and the repo market</li> <li>• Unconventional monetary policy: from quantitative easing and the zero-lower bound to central banks as ‘dealers of last resort’</li> <li>• ‘Blended finance’ and the challenge of financing climate-change measures</li> </ul> <p><b>Part 4: The evolution of developing-economy financial crises (G. Dymski)</b></p> <ul style="list-style-type: none"> <li>• Principal-agent theories of sovereign-debt crises</li> <li>• The financial-system implications of austerity policy and currency hierarchy: developing economies’ debt-led growth</li> <li>• Financing the sustainable development goals (SDGs) and climate change provisions in developing economies</li> </ul>
<p><b>Short bibliography:</b></p>	<p>Admati Anat, and Hellwig, Martin (2013), <i>The Bankers’ New Clothes. What’s wrong with Banking and What to do about it</i>. Princeton: Princeton University Press.</p> <p>Adrian, Tobias, and Shin, Hyun Song (2009), "The shadow banking system: Implications for financial regulation", <i>Staff Report No. 382</i>, New York: Federal Reserve Bank of New York.</p> <p>Aglietta Michel, and Scialom, Laurence (2010), "A systemic approach to financial regulation: A European perspective", <i>International Economics</i> 123, March 2010: 31-65.</p> <p>Baxter, Lawrence G. (2011-2012), "Capture in Financial Regulation: Can We Channel It toward the Common Good ", <i>Cornell Journal of Law and Public Policy</i> 21(1), Article 9: 1-27.</p> <p>Blundell-Wignall Adrian, Atkinson, Paul, and Roulet Caroline (2014), "Banks business models and the separation issue", <i>OECD Journal, Financial Market Trends</i> 2013/2: 1-23.</p> <p>Borio Claudio, (2012), "The financial cycle and macroeconomics: what have we learnt?", <i>BIS Working paper 395</i>, Basel: Bank for International Settlements, December.</p>

## SYLLABUS

- Brunnermeier, Markus K., and Stefan Nagel (2004), "Hedge Funds and the Technology Bubble", *Journal of Finance* 59(5), October: 2013-2040.
- Cerpa, Nicole, Comert, Hasan, D'Avino, Carmela, Dymski, Kaltenbrunner, Annina, Petratou, Eirini, and Shabani, Mimoza (2019), "Too big to manage: US megabanks' competition by innovation and the microfoundations of financialization", *Cambridge Journal of Economics* 43(4), July: 1103-1121.
- Claessens, Stijn, and Ratnovsky, Lev, (2014), "What is shadow banking?", *IMF Working Paper* No. 14/25.
- Dymski, Gary (2010), "Why the Subprime Crisis is Different: A Minskyian Approach", *Cambridge Journal of Economics*, 34(3), March 2010, Pp. 239-55.
- Dymski, Gary (2011), "The Global Crisis and the Governance of Power in Finance", *World Review of Political Economy* 2(4), Winter: 581-602.
- Dymski, Gary (2017), "Does Sustainable Global Prosperity Require Global Financial Governance? " In *Financialisation and the Economy*, edited by Krzysztof Opolski and Agata Gemzik-Salwach. London: Routledge.
- Dymski, Gary (2018), "Developing Economies, International Financial Integration, and Sustainable Development", Intergovernmental Group of Experts on Financing for Development, Second Session, Geneva: United Nations Conference on Trade and Development, November.
- Dymski, Gary (2019), "The International Debt Crisis", Chapter 6 in *Handbook of Globalization, Third edition*, Ed. by Jonathan Michie, Cheltenham: Edward Elgar: 117-34.
- Eaton, Jonathan, Gersovitz, Mark, and Stiglitz, Joseph E. (1986), "The Pure Theory of Country Risk", *European Economic Review* 30(3), 1986: 481-513.
- European Banking Authority, (2018), *2018 EU-Wide Stress Test Results*, Paris: European Banking Authority, November.
- Gabor, Daniela (2021), "The Wall Street Consensus", *Development and Change*, pre-publication print : 1-31.
- Gabor, Daniela, and Vestergaard, Jakob (2016), "Toward a Theory of Shadow Money", *INET Working Paper*, April. New York: Institute for New Economic Thinking. Available at [ineteconomics.org](http://ineteconomics.org).
- Gadinis, Stavros (2012), "The Financial Stability Board: The New Politics of International Financial Regulation", 48 *Texas International Law Journal* 157.
- Gadinis, Stavros (2013), "From Independence to Politics in Financial Regulation", *California Law Review* 4(1): 327-406.
- Gennaioli, Nicola, Andrei Shleifer, and Robert W. Vishny. (2012), "Neglected risks, financial innovation and financial fragility", *Journal of Financial Economics* 104(3): 452-468.
- Gorton, Gary (2009), "Slapped in the Face by the Invisible Hand: Banking

## SYLLABUS

and the Panic of 2007”, paper prepared for the Federal Reserve Bank of Atlanta’s 2009 Financial Markets Conference. Atlanta: Federal Reserve Bank of Atlanta.

Guttentag, Jack M., and Herring, Richard J. (1986), "Disaster Myopia in International Banking", *Essays in International Finance*, n°154, Princeton: International Finance Section, Department of Economics, Princeton University, September.

Hanson Samuel G., Kashyap Anil K, and Stein Jeremy C. (2011) "A Macroprudential Approach to Financial Regulation", *Journal of Economic Perspectives* 25(1), Winter: 3-28

Harney Sophie, and Scialom Laurence (2016), "The influence of the economic approaches to regulation on banking regulations: a short history of banking regulation", *Cambridge Journal of Economics* 40(2): 401-426.

Kindleberger, Charles P, and Aliber Robert Z. (2011), *Manias, Panics and Crashes: A History of Financial Crises*, Palgrave MacMillan, Sixth Edition 2011.

Laeven, Luc, and Valencia, Fabián (2018), "Systemic Banking Crises Revisited", *IMF Working Paper WP/18/206*, September, Washington DC: International Monetary Fund.

Lee, Seung Jung, Posenau, Kelly E., and Stebunovs, Viktors, (2018), "The anatomy of financial vulnerabilities and banking crises", *International Finance Discussion Papers* 1191.

Levine, Ross (2012), "The Governance of Financial Regulation: Reform Lessons from the Recent Crisis", *International Review of Finance* 12(1), March: 39-56.

Mehrling, Perry (2012), "Three Principles for Market-Based Credit Regulation", *American Economic Review Papers and Proceedings* 102(3), May: 107-12.

Minsky, Hyman (1982), "The Financial Instability Hypothesis: A Restatement", Chapter 5 in Hyman Minsky, *Can "It" Happen Again?* Armonk, NY: ME Sharpe, Inc.

Minsky, Hyman (1996), "Uncertainty and the Institutional Structure of Capitalist Economies", *Journal of Economic Issues* 30:2, 1996: 357-69.

Ricks, Morgan (2010), "Shadow banking and financial regulation", *Columbia Law and Economics Working Paper* 370, Available at [papers.ssrn.com](http://papers.ssrn.com).

Ricks, Morgan (2010), "Restoring the Banking Social Contract" (Columbia Law School working paper, available on SSRN)

Tucker, Paul (2010), "Shadow Banking, Financing Markets and Financial Stability", *BIS Review* 6/2010: 1-10.

Verdier, Pierre-Hugues (2013), "The Political Economy of International Financial Regulation", *Indiana Law Journal* 88(4), Article 11: 1405-1475.