

**REFLECTIONS ON THE FEDERAL RESERVE AND ITS PLACE IN TODAY'S
ECONOMY**

MBAD BADM 4900-11 – Duques 651
Tuesdays and Thursdays 12:40 – March 20 – May 1

Timothy L. Fort, PhD, JD

Lindner-Gambal Professor of Business Ethics
Executive Director, Institute for Corporate Responsibility

CLASS FACULTY

Ben S. Bernanke, PhD, The Federal Reserve

Isabelle Bajeux-Besnainou, PhD School of Business

Anthony Yezer, PhD, Columbian College of Arts and Sciences

Pamela Labadie, PhD, Columbian College of Arts and Sciences

Todd Peterson, JD, School of Law

Arthur Wilmarth, JD, School of Law

Sarah Binder, PhD Columbian College of Arts and Sciences

Chao Wei, PhD, Columbian College of Arts and Sciences

Annamaria Lusardi, PhD, School of Business

Howard Beales, PhD, School of Business

Doug Guthrie, PhD, School of Business & Columbian College

Scheherazade Rehman, PhD, School of Business & Elliott School of International Affairs

Timothy L. Fort, PhD, JD, School of Business & School of Law

Class Lecturer and Teaching Assistant: Anoma Kulathunga, PhD

Smita Trivedi, ABD, & Hugh Livengood, Teaching Assistants

OVERVIEW

The Federal Reserve System (FRS) is exceptionally powerful and also mysterious. With strong opposition throughout American history, the notion of a central bank developed with fits and starts for almost 150 years before the Federal Reserve System was created in 1913. The FRS, with a unique structure compared with other central banks, has grown in influence since its creation. With significant independence from the political system and tremendous impact on the financial system, it is an institution of much interest and discussion and its leaders have become popular figures. Historically, it has not necessarily attempted to be transparent about its workings.

This course aims to educate students about the FRS in multiple ways. First, the notion of “students” has a wider definition than most other classes. We do have thirty undergraduate students at George Washington University taking this course for credit. Because of the nature of the course and the fact that the Chairman of the Federal Reserve’s Board of Governors will be teaching the first four classes, however, this class is being streamed live so that anyone with Internet access can watch the class and download reading materials. The second unique educational aspect is, of course, Ben Bernanke’s teaching of the first four sessions of the class. It is a rare experience to have the Chairman of the Federal Reserve’s Board of Governors speaking directly to students in a class. The third unique aspect is that rather than making the class one about finance or economics *per se* – though those would be entirely reasonable and fascinating subjects to build upon Chairman Bernanke’s lectures – this course instead will place discussion of the Fed in a broader sociopolitical context. The aim is for this course to be an accessible yet rigorous and multi-dimensional examination of the Federal Reserve.

ASSIGNMENTS & GRADING

Three components will comprise your grade.

- (1) **Class Participation 25%** This will include participation in the class “labs.” There will be four such labs that take place in addition to the Tuesday-Thursday, regularly scheduled class meeting times. Students need to attend all of them.

Lab Session Dates: The presenters will provide a significant amount of information in their presentations. In addition, we will be hearing from a wide range of scholars with diverse expertise. While there will certainly be discussion, labs are required occasions for students to be able to fully digest the presentations and connect themes among the presenters. These sessions will also be out of the glare of the cameras and so may provide a more relaxed opportunity for discussion.

March 21, 2012, 6:00 PM - 6:50 PM Duques Room 356

April 4, 2012, 6:00 PM - 6:50 PM Duques Room 356

April 18, 2012, 6:00 PM - 6:50 PM Duques Room 356

May 2, 2012, 6:00 PM - 6:50 PM Duques Room 356

My objective in class participation is not for you to attempt to impress the speakers. Instead, the criterion I use for evaluating effective class participation is whether your contributions advance the learning of your fellow classmates. Sometimes, a point is made by a classmate in a way that is better understood than one coming from a speaker. For example, when I started teaching 26 years ago, I was only a few years older than the students. I listened to the same songs; watched the same television shows and, generally, was part of the same generation and its culture. It was pretty easy to use examples that were part of the everyday language of my students. The hair on my head is proof that I no longer share students generation and so students may be able to make a point in ways more helpful than myself or one of the other formal class presenters. This is a real opportunity, then, for students to lead in the classroom and help its educational content. Please give thought to whether your questions and comments do, in fact, advance the learning of your classmates when contributing;

- (2) **Individual Reflection Paper 25%** There will be an individual reflection paper on the lectures of Dr. Bernanke and the two discussions following it. More details will follow on this 3-5 page assignment; and
- (3) **Group Research Paper 50%** The group research paper will look at the FRS and its connections to at least one of the other topics of the class. That is, there will be several presentations on issues pertaining to the Federal Reserve in the second half of the course. The group paper will address the Fed in context and connection with these others institutions and issues. More details will follow on this 8-10 page paper.

SPECIAL CONSIDERATIONS

Obviously, this is a unique class. With live streaming of all the classes, media presence, security, and other issues, it is crucial that you be on class and in your seats no later than 12:45. Frankly, you should plan to be in your seats by 12:40 so you have a margin of error. The doors will close by 12:45 and if you arrive later than this, you will be directed to a room where you can watch a live stream feed. This is not meant to be draconian; it is simply that others wanting to benefit from the class – both inside the classroom and via the streaming – will be disrupted if you

are late. Also, please plan on being in your seats until five minutes after the class ends to allow for film feed shutoff. Similarly shut off your cell phones and any other devices that can make noise. So please take extra care to be respectful of others' opportunity to benefit from the course. There is no formal dress code. You do not need to be in business attire; dress as you would for other classes, but please dress respectfully as well. We'll talk about this more in class.

STREAMING VIDEO

The four Bernanke lectures will be recorded and broadcast on the Federal Reserve website. Links to view the streaming video are below.

<http://www.ustream.tv/federalreserve>

<http://www.federalreserve.gov/newsevents/lectures/about.htm>

SPRING BREAK READING LIST

1. Federal Reserve Bank San Francisco, "What is the Fed?"
<http://www.federalreserve.gov/newsevents/speech/bernanke20100525a.htm>
<http://www.frbsf.org/what-is-the-fed/>
http://www.frbsf.org/what-is-the-fed/monetary_policy.html
2. Federal Reserve Bank of Dallas, "Everyday Economics"
<http://dallasfed.org/educate/everyday/ev8.html>
3. The Federal Reserve Bank of San Francisco, "The Nation's Central Bank"
<http://www.frbsf.org/publications/federalreserve/fedinbrief/central.html>
4. Federal Reserve Education.org, "Fed Basics"
http://www.federalreserveeducation.org/faq/topics/fed_basics.cfm
5. SIFMA – Securities Industry and financial Markets Association, "US Financial Services Industry: Contributing to a more competitive economy", July 2010
<http://www.ita.doc.gov/td/finance/publications/U.S.%20Financial%20Services%20Industry.pdf>
6. Governor Bernanke, "Implementing Monetary Policy." March 30, 2005
<http://www.federalreserve.gov/boarddocs/speeches/2005/20050330/default.htm>
7. Chairman Bernanke, "The Benefits of Price Stability" , February 25, 2006
<http://www.federalreserve.gov/newsevents/speech/bernanke20060224a.htm>
8. About the FOMC (Federal Open Market Committee)
<http://www.federalreserve.gov/monetarypolicy/fomc.htm>
9. Governor Tarullo, "Unemployment, the Labor Market and the Economy", October 20, 2011
<http://www.federalreserve.gov/newsevents/speech/tarullo20111020a.htm>
10. Governor Duke's speech, "Come With Me to the FOMC – 10/19/2010
<http://www.federalreserve.gov/newsevents/speech/duke20101019a.htm>
11. Duvvuri Subbarao, Finance & Development, "Redefining Central Banking", June 2010
<http://www.imf.org/external/pubs/ft/fandd/2010/06/subbarao.htm>

Optional Additional Reading to Subbarao:
Alan Blinder, "How Central Should the Central Bank Be?" Journal of Economic Literature 48:1(2010):123-33.
www.relooney.info/0_New_7345.pdf
12. McKinsey Quarterly, Economic conditions snapshot, December 2011, Global Survey results

http://www.mckinseyquarterly.com/Economic_Conditions_Snapshot_December_2011_McKinsey_Global_Survey_results_2905

Register to read here: <http://www.mckinseyquarterly.com/home.aspx>

13. McKinsey Quarterly, Financial Services Practice, “Why US banks need a new business model”, January 2012

http://www.mckinseyquarterly.com/Why_US_banks_need_a_new_business_model_2909

Register to read here: <http://www.mckinseyquarterly.com/home.aspx>

REFERENCES

1. <http://www.federalreserve.gov/monetarypolicy/default.htm> has a left navigation option "policy tools" with links to and descriptions about
 - Maturity Extension Program and Reinvestment Policy
 - Open Market Operations
 - Discount Rate
 - Reserve Requirements
 - Interest on Required Reserve Balances and Excess Balances
 - Term Asset-Backed Securities Loan Facility
 - Term Deposit Facility
 - Expired Policy Tools
2. The Federal Reserve Systems: Purposes and Functions
<http://www.federalreserve.gov/pf/pf.htm>
3. Federal Reserve Bank San Francisco, FRBSF "Crisis and Response" website.
<http://www.frbsf.org/econanswers/>

COURSE SCHEDULE

All reading to be completed by the indicated date

Introduction

March 6	Pre-Class Orientation	Anoma Kulathunga & Timothy Fort
March 8	Pre-Class Orientation	Anoma Kulathunga & Timothy Fort
Spring Break	Introductory Materials on the FRS distributed for review over Spring Break	

The Federal Reserve System: The Chair's View

March 20	Introductions Origins and Mission of the Federal Reserve	Timothy Fort Ben Bernanke
March 21	Lab Session 6:00 PM - 6:50 PM Duques Room 356	
March 22	The Federal Reserve after World War II	Ben Bernanke

Assigned Reading:

Chairman Ben S. Bernanke, "Four questions about the financial crisis", Speech at the Morehouse College, Atlanta, Georgia, April 14, 2009
<http://www.federalreserve.gov/newsevents/speech/bernanke20090414a.htm>

March 27	The Financial Crisis and the Great Recession	Ben Bernanke
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Assigned Reading:

Chairman Ben S. Bernanke, "The Crisis and the Policy Response", at the Stamp Lecture, London School of Economics, London, England, January 13, 2009
<http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm>

March 29	The Aftermath of the Crisis	Ben Bernanke
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Assigned Reading:

Chairman Ben S. Bernanke, "The Effects of the Great Recession on Central Bank Doctrine and Practice", at the Federal Reserve Bank of Boston 56th Economic Conference, Boston, Massachusetts, October 18, 2011
<http://www.federalreserve.gov/newsevents/speech/bernanke20111018a.htm>

April 3	General Reflections on Bernanke Sessions 1 and 2	Pamela Labadie & Chao Wei
April 4	Lab Session 6:00 PM - 6:50 PM Duques Room 356	
April 5	General Reflections on Bernanke Sessions 3 and 4 and Lecture on Behavioral Finance	Isabelle Bajeux-Besnainou

Assigned Reading:

Psychology and the Financial Crisis of 2007-2008
<http://faculty.som.yale.edu/nicholasbarberis/cp10.pdf>
 Nicholas Barberis, Yale School of Management.

The Federal Reserve in Context

April 10	Constitutionality & Independence of the Fed	Todd Peterson & Art Wilmarth
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Assigned Reading:

1. Morrison v. Olson, (U. S. Supreme Court 1988)
http://scholar.google.com/scholar_case?case=17629076715773250697&hl=en&as_sdt=2&as_vis=1&oi=scholarr
2. Free Enterprise Fund v. Public Company Accounting Oversight Board, (U.S. Supreme Court 2010)
http://scholar.google.com/scholar_case?case=17629076715773250697&hl=en&as_sdt=2&as_vis=1&oi=scholarr
3. Eight Articles – To Be Emailed or links provided
 1. Am. Banker Article re Conflicts of Interest at the Fed 10.20.11
 2. Bloomberg Article re Conflicts of Interest at New York Fed 5.8.09
 3. Excerpts from Wilmarth Article on Consumer Financial Protection Bureau and Regulatory Capture 12.22.11
 4. NYT Article re Fed and Subprime Financial Crisis 12.18.07
 5. NYT Article re Fed Chairman Bernanke’s Testimony before FCIC 9.3.10
 6. NYT Article re New Fed Approach to Regulation 6.4.10
 7. Wash. Post Article re Fed and Subprime Financial Crisis 9.27.09
 8. Wash. Post Article re Fed and Subprime Financial Crisis 12.21.09

April 12	Transparency, Auditing, & the Fed’s Future	Art Wilmarth, con’t & Sarah Binder
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Assigned Reading:

1. Laurence Meyer, "The Politics of Monetary Policy: Balancing Independence and Accountability." Remarks by Governor Laurence H. Meyer At the University of Wisconsin, LaCrosse, Wisconsin, October 24, 2000;
<http://www.federalreserve.gov/boarddocs/speeches/2000/20001024.htm>
2. Matthew Yglesias, "Fed Up: The Federal Reserve is shrouded in obscurity. That's partly its fault-- but it's partly progressives' fault, too." Democracy, 20 (Spring 2011): 64-74.
<http://www.democracyjournal.org/20/fed-up.php?page=all>
3. Annie Lowery, "End the Fed? Actually, Maybe Not." February 6, 2011.
http://www.slate.com/articles/business/moneybox/2011/02/end_the_fed_actually_maybe_not.html
4. Sarah Binder, "Will Congress Ever Reform the Fed?" Brookings Institution. May 12, 2010.
http://www.brookings.edu/opinions/2010/0512_fed_binder.aspx
5. Sarah Binder and Mark Spindel, "The Fed Uncloaked." Brookings Institution, December 20, 2010.
http://www.brookings.edu/opinions/2010/1207_fed_binder.aspx

April 17

The Fed's Regional Work

Anthony Yezer

Assigned Readings:

1. Beige Book for February 29, 2012, Look at the front page summary and then go to the commentary from the Federal Reserve Bank that serves the area where you live.
<http://www.federalreserve.gov/FOMC/BeigeBook/2012/20120229/default.htm>
2. Viral Acharya, Joao Santos, and Tanju Yorulmazer, Systematic Risk and Deposit Insurance Premiums, Federal Reserve Bank of New York Economic Policy Review, (August 2010)
<http://web.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=25a0174a-308f-4e65-aded-e5d31587f9e0%40sessionmgr12&vid=4&hid=21>

April 18

Lab Session 6:00 PM - 6:50 PM Duques Room 356

April 19

Consumer Responsibilities: Consumer Financial Protection Bureau & Financial Literacy

Annamaria Lusardi,
& Howard Beales

Assigned Reading:

1. Lusardi, Annamaria, Olivia Mitchell and Vilsa Curto, "Financial Literacy Among the Young," Journal of Consumer Affairs, vol 44 (2), 2010.

5. Financial Times, "Thinking the Unthinkable on a Euro Break-up," Nov 27, 2011.
<http://blogs.ft.com/gavyndavies/2011/11/27/thinking-the-unthinkable-on-a-euro-break-up/#axzz1oCZDnUMs>
6. McKinsey Quarterly, "Why Europe Lags Behind The United States In Productivity", October 2011.
https://www.mckinseyquarterly.com/Why_Europe_lags_behind_the_United_States_in_productivity_2684
7. How Did the Central Banks in the U.S. and Europe React to the Global Financial Crisis?
<http://blogs.law.uiowa.edu/ebook/uicifd-ebook/part-5-v-how-did-central-banks-us-and-europe-react-global-financial-crisis>
8. University of Iowa, International Financial and Development, "The European Sovereign Debt Crisis POSTERS," February 24, 2012.
<http://blogs.law.uiowa.edu/ebook/uicifd-ebook/poster-presentation-european-sovereign-debt-crisis>
9. *Financial Times Video*, "How To Read Draghi And Bernanke", Feb 29, 2012.
<http://video.ft.com/>
10. McKinsey Quarterly, "Globalization's Critical Imbalances", June 2012.
https://www.mckinseyquarterly.com/Globalizations_critical_imbalances_2624
11. Financial Times, "A Global Experiment in the Fiscal/monetary Mix," Feb 19, 2012.
<http://blogs.ft.com/gavyndavies/2012/02/19/a-global-experiment-in-the-fiscalmonetary-mix/#axzz1oCbSJj8m>
12. McKinsey Quarterly, Financial Services Practice, "In Search Of A Sustainable Model For Global Banking," Sept 2011.
<https://www.mckinseyquarterly.com/PDFDownload.aspx?ar=2859>

May 1 Central Banking and The Peace Accelerator Timothy Fort

Assigned Reading: TBD

May 2 Lab Session 6:00 PM - 6:50 PM Duques Room 356