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

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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.
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

   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


6. Governor Bernanke, "Implementing Monetary Policy." March 30, 2005

   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


Optional Additional Reading to Subbarao:
www.relooney.info/0_New_7345.pdf

   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

   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  Timothy Fort
    Origins and Mission of the Federal Reserve  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

Assigned Reading:

March 29  The Aftermath of the Crisis  Ben Bernanke

Assigned Reading:
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

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

   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

Assigned Reading:


April 17

**The Fed’s Regional Work**

**Assigned Readings:**


April 18

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

April 19

**Consumer Responsibilities: Consumer Financial Protection Bureau & Financial Literacy**

**Assigned Reading:**

Read pages 358-368


April 24(a) The Sociology of Finance Doug Guthrie

Assigned Reading: TBD

Global Considerations

April 24(b) China’s Place in International Monetary Issues Doug Guthrie

Assigned Reading: TBD

April 26 The European Crisis Scheherazade Rehman

Assigned Reading:

http://www.economist.com/node/21536872

http://video.ft.com/

http://www.economist.com/blogs/charlemagne/2012/03/european-summit

http://www.economist.com/blogs/charlemagne/2012/02/germany-and-greece
   [link]
   [link]
7. How Did the Central Banks in the U.S. and Europe React to the Global Financial Crisis? 
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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