

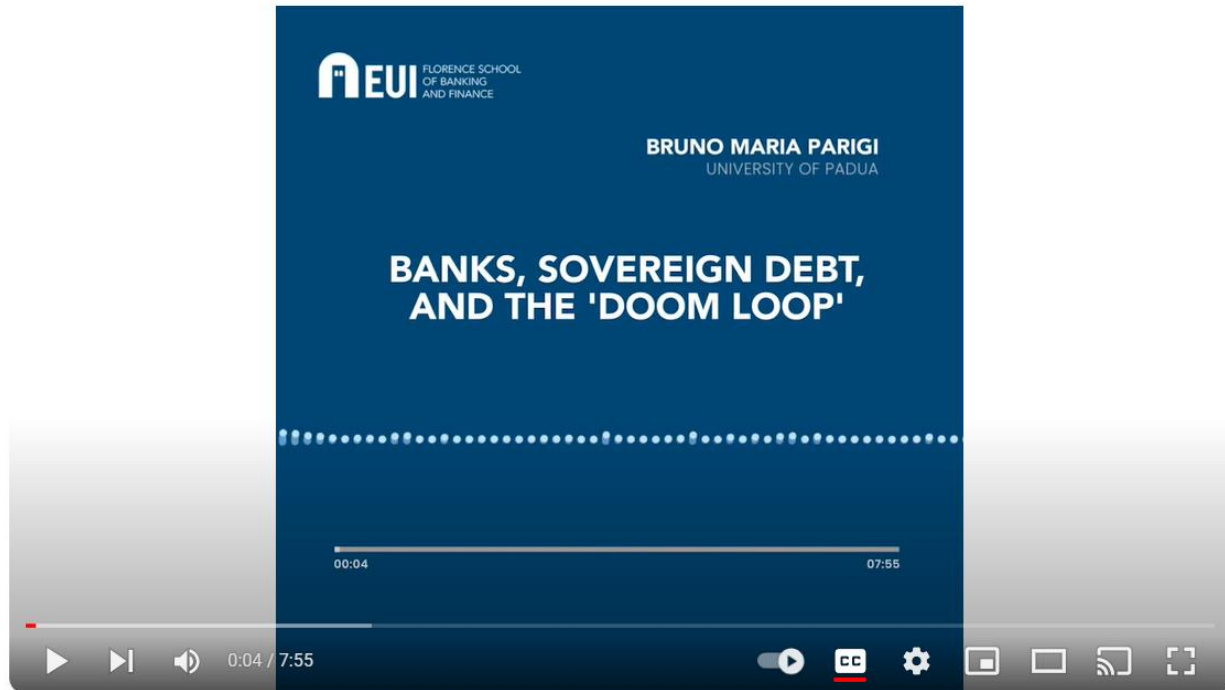
**CLASS 6**

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| <b>TOPIC</b>   | <b><i>Financial Stability</i></b>   |   |
| <b>LEARNING CONTENT - DETAILED CHARACTERISTICS</b>   | <p>We consider the role of the financial system to facilitate the allocation and deployment of economic resources. Financial intermediation is defined. Some key terms are defined as regards financial structures, instruments, financial markets infrastructure, and securitization. The recurrence of financial crises and the link between finance and economic performance is considered. The students become familiar with the economic and social role of capital markets and their effectiveness. The main question here is why banks are special and why they should be regulated considering information asymmetry, misaligned incentives, adverse selection, liquidity mismatch in and outside banks. Understanding crisis propagation and amplification has become a policy priority after the 2008 global financial crisis. The first strand of research on financial stability is empirical and aims at measuring interconnectedness. Systemic risk evaluation becomes the key obstacle to financial stability. Theoretical approaches to contagion and shock propagation have identified several procyclical mechanisms. Large and rare shocks become an additional source of systemic risk in the financial system and policies must consider them.</p> |   |
| <b>KEY WORDS</b>                                     | <p>Financial intermediation, commercial banks, maturity transformation, stocks, securities, securitization, financial crises, the Minsky moment, capital markets, information asymmetry, adverse selection, interconnectedness, systemic risk, contagion, shock propagation, black swans.</p>   |   |
| <b>SUGGESTED TOOLS</b>                               | <p>Power-point presentation<br/>Critical thinking and analysis<br/>Real-world personal observation<br/>Interactive and group discussions<br/>A personal study plan</p>  |   |
| <b>TIPS / METHODOLOGICAL REMARKS (if applicable)</b> | <p>Learning-by-doing and case studies activities. The focus is on the link between finance and economic performance as regards financial stability.</p>   |   |
|  |   | <p>We differentiate finance as intermediated (or bank-based) and disintermediated (or market-based). We</p> |

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| <b>IMPLEMENTATION<br/>OF THE CLASSES</b> | <b>STEP 1</b> | explain the special role of banks as they perform maturity transformation. Stocks, securities, and securitization are defined.  |
|  | <b>STEP 2</b> | Financial crises importance is considered. We define the common features of financial crises – leverage and bubbles. The specificities before and after the crisis as well as bank-sovereign-nexus are explained. We take note of what the empirical literature says about the link between finance and economy. See work card 1. |
|  | <b>STEP 3</b> | We make students aware that capital markets are where financial assets (stocks, bonds, loans, foreign exchange, etc.) are underwritten and traded. We consider the social role of capital markets to match the supply and demand for capital and factors that affect their effectiveness.   |
|  | <b>STEP 4</b> | The students become familiar why banks are special and why they should be regulated considering information asymmetry, misaligned incentives, adverse selection, liquidity mismatch in and outside banks. See work card 1.  |
|  | <b>STEP 5</b> | Financial crisis propagation and amplification is considered on the back of interconnectedness, systemic risk, contagion, and black swans.  |

**ADDITIONAL MATERIAL 1 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNMENTS)**  
**WORK CARD 1 – FINANCIAL STABILITY**

Watch the video *Banks, Sovereign Debt and the ‘Doom loop’* and take part in the discussion:  
<https://www.youtube.com/watch?v=qhINjiZ3KSc>



**Banks, Sovereign Debt and the 'Doom loop' - Bruno Maria Parigi (University of Padova)**

Answer the following questions:

1. What is the so-called vicious circle between banks and governments?
2. Why did the 2008 global financial crisis amplify this negative loop-back?
3. What do you think about the fiscal and monetary dominance as regards the 'doom-loop'?
4. Did your country experience such problems? What was the resolution plan?
5. How the central bank mandates should be changes so the 'doom-loop' be avoided?

**ADDITIONAL MATERIAL 2 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNMENTS)**

**WORK CARD 2 – FINANCIAL STABILITY**

Watch the video '*The Black Swan*' author Nassim Taleb on looming crisis: *The risk is in front of us*:

<https://www.youtube.com/watch?v=nBZxmDjWHmA>



'The Black Swan' author Nassim Taleb on looming crisis: The risk is in front of us

What do you think about the following comments:



@trazzpalmer3199 2 months ago

Right now, things appear odd. The US dollar is becoming less valuable due to inflation, but it is becoming more valuable when compared to other currencies and commodities such as gold and real estate. People are flocking to the dollar because they believe it is more secure. I'm concerned that rising inflation may cause my \$420,000 in retirement savings to devalue. We don't have any other places to deposit our money.

518 Reply



@jameswood9772 2 months ago

During a recession, many stocks and assets may be undervalued. I believe now is an ideal time to capitalize on the market for long-term gains, but it wouldn't hurt to know how to make short-term profit. I've heard of investors making over \$400k profit in this current sinking market, and I'm looking for ideas on how to earn similar profits.

388 Reply



@zoeytank2921 4 months ago

People are affected by inflation far more quickly than they are by a stock or property market crisis because it directly impacts their standard of living. The current level of negative market sentiment is not surprising. To survive in this economy, we urgently need assistance. The ETF/Equity market continues to fluctuate.

149 Reply



@julienwater 4 months ago

A number of the most eminent market experts have been expressing their views on the severity of the impending economic downturn and the extent to which equities might plummet. This is because the economy is heading towards a recession and inflation is persistently above the Federal Reserve's 2% target. As I'm aiming to create a portfolio worth no less than \$850,000 before I turn 65, I would appreciate any advice on potential investments

 481  Reply



@patrickbrussels4454 4 months ago

The most important thing that should be on everyone mind currently should be to invest in different sources of income that doesn't depend on the government. Especially with the current economic crisis around the word. This is still a good time to invest in various stocks, Gold, silver and digital currencies.

 248  Reply