Overview

Due to expanding global trade and technological developments, as well as other political and historical factors, money moves across the world more easily, rapidly, safely, cheaply, and in greater volume than ever before. What is the significance of this global flow of capital? What institutional structures are in place to facilitate this process and what are their ultimate goals?

Global finance and banking touches every aspect of life on this planet. How does this rapid flow of money and financial resources impact the political, economic, environmental, and democratic institutions that govern states and multi-lateral organizations? Who wins and who loses from this easy flow of finance?

This module addresses the significance of financial markets and international investments in the process of global financial integration as well as the role of national central banks, multinational corporations (MNCs) and multilateral organizations, such as the World Bank and the International Monetary Fund (IMF), in financial globalization.

Module Objectives

1. Explain basic concepts of global banking and finance.
2. Articulate the fundamentals of international investment, exchange rates, and international banking.
3. Compare and contrast the current issues in global banking and finance from different perspectives.
4. Critically analyze the role of multilateral financial institutions in globalization.
Glossary

Annuities: "These are contracts between individual investors and insurance companies, where investors agree to pay an allocated amount of premium and at the end of a pre-determined fixed term, the insurer will guarantee a series of payments to the insured party."¹

Bonds: certificate issued by a government or company representing a promise by the bond issuer to pay the bondholder interest in addition to the principal amount of the bond after a specified period of time. For example, a 10-year bond purchased today costs $35. When you “redeem” or cash in the bond after ten years, the issuer repays the $35 principal plus interest at a rate established when the bond was issued.

Capital flow: "The movement of money for the purpose of investment, trade or business production. Capital flows occur within corporations in the form of investment capital and capital spending on operations and research & development. On a larger scale, governments direct capital flows from tax receipts into programs and operations, and through trade with other nations and currencies. Individual investors direct savings and investment capital into securities like stocks, bonds and mutual funds." Read more: http://www.investopedia.com/terms/c/capital-flows.asp#ixzz1vvyLyriSz

Capital markets: A financial market that works as a conduit for demand and supply of debt and equity capital. It channels the money provided by savers and depository institutions (banks, credit unions, insurance companies, etc.) to borrowers and investees through a variety of financial instruments (bonds, notes, shares) called securities.

A capital market is not a compact unit, but a highly decentralized system made up of three major parts: (1) stock market, (2) bond market, and (3) money market. It also works as an exchange for trading existing claims on capital in the form of shares.” Read more: http://www.businessdictionary.com/definition/capital-market.html#ixzz1vvyzNnyLg

Certificate of Deposit: "Certificates of deposit (or CDs) are issued by banks and credit unions. They usually have a fixed term and fixed interest rate."² A person may go to bank and buy a CD instead of putting his or her funds in a savings account because the rate of return is often higher. On the other side, the CD often has a set term so the person cannot cash in the CD before the...


² Ibid.
term expires without risking a penalty. This makes it less "liquid" (easy to buy/sell/trade) than a traditional bank account.

**Commodity Market**: "A physical or virtual marketplace for buying, selling and trading raw or primary products…Commodities are split into two types: hard and soft commodities. Hard commodities are typically natural resources that must be mined or extracted (gold, rubber, oil, etc.), whereas soft commodities are agricultural products or livestock (corn, wheat, coffee, sugar, soybeans, pork, etc.)." Read more: [http://www.investopedia.com/terms/c/commodity-market.asp#ixzz239R509Bt](http://www.investopedia.com/terms/c/commodity-market.asp#ixzz239R509Bt)

**Equity**: "The term's meaning depends very much on the context. In finance, in general, you can think of equity as ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered the owner's equity because he or she can readily sell the item for cash. Stocks are equity because they represent ownership in a company." Read more: [http://www.investopedia.com/terms/e/equity.asp#ixzz1yw04aC00](http://www.investopedia.com/terms/e/equity.asp#ixzz1yw04aC00)

**Financial assets**: "An asset that derives value because of a contractual claim. Stocks, bonds, bank deposits, and the like are all examples of financial assets." Read more: [http://www.investopedia.com/terms/f/financialasset.asp#ixzz1yw0KHHy0](http://www.investopedia.com/terms/f/financialasset.asp#ixzz1yw0KHHy0)


**Financial markets**: "Broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade." Read more: [http://www.investopedia.com/terms/f/financial-market.asp#ixzz1yw19JW00](http://www.investopedia.com/terms/f/financial-market.asp#ixzz1yw19JW00)

**Floating Exchange Rate**: "A country's exchange rate regime where its currency is set by the foreign-exchange market through supply and demand for that particular currency relative to other currencies. Thus, floating exchange rates change freely and are determined by trading in the forex market. This is in contrast to a "fixed exchange rate" regime." Read more: [http://www.investopedia.com/terms/f/floatingexchangerate.asp#ixzz1yw1O23b5](http://www.investopedia.com/terms/f/floatingexchangerate.asp#ixzz1yw1O23b5)

**Foreign Exchange Market**: "The market in which participants are able to buy, sell, exchange and speculate on currencies. Foreign exchange markets are made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors. The forex market is considered to be the largest financial market in the world."
Hedging: "A risk management strategy used in limiting or offsetting probability of loss from fluctuations in the prices of commodities, currencies, or securities" "In effect, hedging is a transfer of risk without buying insurance policies." Read more: http://www.businessdictionary.com/definition/hedging.html#ixzz1yw2L16JL

Insurance Markets: buying and selling of insurance

Inflation: "A sustained, rapid increase in prices, as measured by some broad index (such as Consumer Price Index) over months or years, and mirrored in the correspondingly decreasing purchasing power of the currency. It has its worst effect on the fixed-wage earners, and is a disincentive to save." Read more: http://www.businessdictionary.com/definition/inflation.html#ixzz1yw2vQB00

International Monetary Fund: The IMF is an international organization of 185 member countries, established in 1947 to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment.

Letter of Credit: "A written commitment to pay, by a buyer's or importer's bank (called the issuing bank) to the seller's or exporter's bank (called the accepting bank, negotiating bank, or paying bank).

A letter of credit guarantees payment of a specified sum in a specified currency, provided the seller meets precisely-defined conditions and submits the prescribed documents within a fixed timeframe… Letters of credit are formal trade instruments and are used usually where the seller is unwilling to extend credit to the buyer. In effect, a letter of credit substitutes the creditworthiness of a bank for the creditworthiness of the buyer. Thus, the international banking system acts as an intermediary between far flung exporters and importers." Read more: http://www.businessdictionary.com/definition/letter-of-credit-L-C.html#ixzz1yw3PrKRH

Liquidity: "The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets." Read more: http://www.investopedia.com/terms/l/liquidity.asp#ixzz1z02ut3nW
Mutual Funds: Professionally managed financial instruments that may include a mix of stocks, bonds and other products. Investors may choose to buy a mutual fund instead of a stock or a bond because it may give a higher rate of return with less risk because there are multiple products contributed the worth of the fund.

Trade Liberalization: elimination of government barriers to trade of goods and services

Pegged Currency: "A method of stabilizing a country's currency by fixing its exchange rate to that of another country" Read more: http://www.investopedia.com/terms/p/pegging.asp#ixzz1z03RSqAd

Security: "An instrument representing ownership (stocks), a debt agreement (bonds) or the rights to ownership (derivatives)." From http://www.investopedia.com/terms/s/security.asp#ixzz1vdNVfCHG

Speculation: "The act of trading in an asset, or conducting a financial transaction, that has a significant risk of losing most or all of the initial outlay, in expectation of a substantial gain. With speculation, the risk of loss is more than offset by the possibility of a huge gain; otherwise, there would be very little motivation to speculate. While it is often confused with gambling, the key difference is that speculation is generally tantamount to taking a calculated risk and is not dependent on pure chance, whereas gambling depends on totally random outcomes or chance." Read more: http://www.investopedia.com/terms/s/speculation.asp#ixzz1z041SiVi

Stocks: A certificate issued by a corporation that represents partial ownership of the corporation (equity). Different kinds of stock confer different rights and responsibilities on the stockholder, including the right to receive dividends and the ability to participate in corporate decision-making. An investor (person/company/government/etc.) buys stock shares. The investor buys the stock for a certain quoted price and hopes that the company improves and the stock price becomes higher. Investors like to buy low and sell high, so buy when the company is not doing that great, but sell when it is doing really great and make a profit.
Lesson Plans

Lesson 1: Global Banking and Financial Institutions

Overview

This lesson explores the role of banks in facilitating trade and finance. It highlights different types of banks, and the role they play in the financial markets. The discussion then moves to regulation of international banking.

Relevant Module Objectives

1. Explain basic concepts of global banking and finance.
2. Articulate the fundamentals of international investment, exchange rates, and international banking.
3. Compare and contrast the current issues in global banking and finance from different perspectives.
4. Critically analyze the role of multilateral financial institutions in globalization.

Procedure

Possible Classroom Activities

- Hook.
  (Time: 10 minutes) (Skills: n/a) (Objective 1) (Related Resources: Global Banking 101)

  The instructor assigns Global Banking 101 before class. To open the class, the instructor asks the following questions:
  
  o How many students have a bank account or a credit card?
  o How do banks stay in business and, for example, are able to offer interest on savings accounts?

- Global Banking and Financial Products.
  (Time: 15 minutes) (Skills: n/a) (Objective 1) (Related Resources: Financial Products)

  Today's global financial markets are very complex, with many players trading different types of financial assets. The instructor should explain some of the basic types of financial investments.
Introduce the following terms/products from the glossary: stocks, bonds, mutual funds, certificates of deposit, annuities (loan guarantees), letters of credit, and liquidity.

Discussion questions:

1. Which of the investments above are the riskiest and why?
2. Why are complex financial products needed?
3. Who has access to financial products and who does not?
4. What is the implication of lack of access to financial products?

- Lecture on Global Banking and Financial Institutions.
  (Time: 20 minutes) (Skills: Holistic Thinking) (Objectives 1& 4) (Related Resources: Global Banking Lesson 1 Powerpoint, UNCTAD, Chan-Lau, Krugman, Federal Reserve in the International Arena, and New York Fed Services readings)

The instructor introduces global banking and financial institutions using the lecture notes and PowerPoint presentation.

- Banks are important players in global financial markets. They store deposits and extend credits to households and firms.
- The major types of banks are: investment banks, merchant banks, private banks, offshore banks, commercial banks.
- Banking practices vary widely—they could be privately owned, state owned, may have many branches or just a few, may not be allowed to charge or give interest
- Foreign trade and investment may involve various risks. Banks can help minimize currency risk, which is a risk that arises due to fluctuating currency rates.
- The central bank of each country regulates money supply and credit, issues currency, and manages currency rates.
- Federal Reserve Bank (commonly known as the Fed) is the central bank of the U.S.
- Bank of International Settlement (BIS), based in Switzerland, provides banking service to central banks.
- International Monetary Fund (mainly) and World Bank play an important role in the financial market too. More detail about their activities and controversies are discussed in Lesson 2.

Discussion Questions
1. What are the difference and similarities between investment banks, merchant banks, private banks, offshore banks, commercial banks, and central banks?
2. What is leveraging and why is that concept important to banks?
3. Can you think of examples when banks increase risk and decrease risk?
4. What ethical issues can you think arise from banking?

The instructor should conclude the lesson with one of the following two activities.

- Discussion on Banks and Globalization.
  (Time: 15 minutes) (Skills: Holistic Thinking) (Objective 3) (Related Resources: n/a)
  The instructor asks the students to find out how their (and their family’s) life is affected by banks. To what extent their local bank is involved in globalization? Ask them to find out if their banks combined their loans into a financial asset and sold them to foreign banks or institutions. What are the implications of selling loans to foreign banks? What is the implication if all banks around the world sell foreign loans to each other?

- Analysis Activity.
  (Time: 15 minutes) (Skills: Holistic Thinking) (Objective 2) (Related Resources: n/a)
  The instructor asks the students to find out the largest banks in the world and compare the banks with the GDP of developing countries. What does it mean if a bank has a larger amount of money than a country? The instructor asks the students their opinions on the concept "too big to fail."

Resources


Background Readings for the Instructor


Optional Resources

Lesson 2: Multilateral Institutions

Overview

The main focus of this lesson is the activities of the IMF and the World Bank and how they influence globalization. It begins with a description of the IMF and its activities and how it can help establish stability in the international financial markets. It then discusses the role of the World Bank and how it provides help in development to member countries. Next, it provides a critical analysis of the IMF and the World Bank.

Relevant Module Objectives

1. Explain basic concepts of global banking and finance.
2. Compare and contrast the current issues in global banking and finance from different perspectives.
3. Critically analyze the role of multilateral financial institutions in globalization.

Procedure

Possible Classroom Activities

- Hook.
  (Time: 10 minutes) (Skills: Holistic Thinking) (Objective 4) (Related Resources: New World Bank Strategy Makes Green Essential Part of Growth and IMF, World Bank Enslave Humanity videos)

  The instructor shows two contradictory films, one pro and one con on the World Bank and IMF to get students interested in the topic. If students have questions after watch the negative film, the Carrasco et. al article provides an excellent, fact-based analysis of various criticisms.

  After the showing the videos, make sure the students are critical consumer of media. Ask them about the producer's bias and use of facts to back the arguments.

- Introduction to the IFIs.
  (Time: 40 minutes) (Skills: Holistic Thinking) (Objectives 1&4) (Related Resources: IMF and the World Bank Issue in Depth, Boughton, Tackling Current Challenges, Carrasco, and Offner readings)

  The instructor introduces the role of the World Bank and the IMF.
Discussion Questions:

1) Why were the World Bank and IMF founded?
2) What are their main objectives?
3) Who are the main beneficiaries of the World Bank and the IMF, who does not benefit from them?
4) Who is in charge and what is the voting system?
5) What is the process of getting loans from them, etc?
6) What do the World Bank and IMF have in common? How do they differ?
7) How does the work of the World Bank or IMF impact the environment, economic development, democratic movement, and global public health?
8) Why are the World Bank and IMF so controversial?

*Please note that more time can be taken just introducing these two organizations. In fact a whole class could easily be dedicated to each institution. If the instructor feels pressed for time, than her or she should address only one of these institutions during the lesson.

- Ethical Issue Activity: World Bank Reform.
  (Time: 40 minutes) (Skills: Holistic Thinking and Cross-Cultural Communications and Technology skills) (Objectives 1, 3 &4) (Related Resources: n/a)

The students can be divided into three groups. One group would represent the IMF or World Bank officials, the second group the rich countries, the third group the developing countries. Each group should create a short presentation outlining the necessary steps to reform the IMF or World Bank.

Each group should research the reform process online and then decide and agree upon how this reform should be enacted. After all groups present their ideas, students must write a short 1-page reflection about how their assigned role would respond to one of the two other reform proposals and why.

* Please note this is an advanced activity for classes that are already familiar with the World Bank and IMF and can be done instead of the Introduction to the IFIs activity.

- Class Reflection.
  (Time: 10 minutes) (Skills: n/a) (Objective 4) (Related Resources: n/a)

  The instructor asks the students about their own opinions of the World Bank and IMF? Are these institutions still necessary? What would happen if we got rid of these
institutions? How would that decision impact rich countries (like the U.S.), middle income countries (like Brazil and China), and poor countries (like Malawi)?

Resources

- Appendix A Lecture Notes Lesson 2
  [The Globalization101 page is suitable for this unit. It covers the relevant issues and is well-maintained and current.] Skip the section entitled governance.

Background Readings for the Instructor


Optional Resources

Lesson 3: International Investment

Overview

This lesson begins with a discussion of the different types of foreign investment. This discussion then moves to why companies investment in foreign countries. Next, it explains why governments intervene in the free flows of foreign investment and the policy instruments governments use to restrict and promote foreign investment. Finally, the discussion moves to understanding the positive and negative impacts of investment from multiple perspectives (business, social, host-county, home-country, etc.)

Relevant Module Objectives

1. Articulate the fundamentals of international investment, exchange rates, international banking.

3. Compare and contrast the current issues in global banking and finance from different perspectives.

Procedure

Possible Classroom Activities

- Hook Activity.  
  (Time 10 minutes) (Skills: n/a) (Objective 3) (Resources: Germany: Your Smartest International Investment Location)

  The instructor shows the short YouTube clip that was made to attract investors to Germany and ask the students:

  1) Who is the intended audience for the film?  
  2) What factors did the producers cite to attract firms to invest in Germany?  
  3) Was it convincing? Why or why not?

- Introduction to International Investment.  
  (Time: 35 minutes) (Skills: Holistic Thinking) (Objective 2) (Related Resources: Appendix B, Global Banking and Finance Lesson 2 PowerPoint, Investment Brief and Daniel's reading)

  The instructor introduces the topic of international investment using the PowerPoint
Discussion Questions:

1) What are the different types of investments?
2) Which investments are riskier and why?
3) Where do most investments originate and where are most investments made and why?
4) How does the flow of money across borders impact politics, economic development, jobs, and international trade?
5) Who benefits from foreign investment and who does not and why?
6) Why has foreign investment increased over the past decade? What facilitates increased foreign investments and what might slow it down?
7) How does foreign investment impact free trade and vice versa?

*The instructor should end the class with one of the ethical dilemmas highlighted below.

- Ethical Issue Activity 1.
  (Time: 15 minutes) (Skills: Holistic Thinking) (Objectives 2 &3) (Related Resources: n/a)

  Undertaking FDI, by definition, means not investing in the MNC’s home country. The instructor asks: What are the ethical dilemmas here? What are your recommendations as a (1) labor union leaders of your domestic labor force, (2) MNC executive, (3) host country official, and (4) home country official?

- Ethical Issue Activity 2.
  (Time: 15 minutes) (Skills: Holistic Thinking) (Objective 2) (Related Resources: n/a)

  MNCs from developed countries often move to developing countries to take advantage of poor labor standards and lax environmental conditions. The instructor asks the students to explain how these moves can help the company but hurt the country. What can be done to benefit both the company and the country?

- Ethical Issue Activity 3.
  (Time: 15 minutes) (Skills: Holistic Thinking) (Objectives 2 and 3) (Related Resources: n/a)

  The instructor provides the following scenario to the students:
You overhear your superior tell another manager in the company: ‘I am fed up with our nation’s companies sending manufacturing jobs abroad and off-shoring service work to lower-wage nations. Don’t any of them have any national pride?’ The other manager responds, ‘I disagree. It is every company’s duty to make as much profit as possible for its owners. If that means going abroad to reduce costs, so be it.’ Do you agree with either of these managers? Why or why not? Now step into the conversation and explain where you stand on the issue. Is there any ethical dilemma here?

Resources

- Appendix B Lecture Notes Lesson 3
- Investment (n.d.). Globalization101. Retrieved from: http://www.globalization101.org/category/issues-in-depth/investment/ [An excellent source for understanding the basic concepts and type of foreign direct investment (FDI), why companies investment abroad, factors influencing foreign investment decisions, positive and negative effects of FDI. The statistical figures are updated annually. The latest pdf is available by the end of every summer.]

Optional Resources

- Concerns about Chinese investment in the U.S. Retrieved from: http://www.youtube.com/myibvideos#p/c/6B60E136C405376B/7/p-Ng-WGo0RM (2 min)
- Corbridge S, Martin R & Thrift N(Eds.) (1994) Money, Power and Space, Oxford: Wiley-Blackwell [The chapter by Susan Strange - “From Bretton Woods to the Casino Economy” is a great reading explaining the relationship between international monetary and global financial institutions]
Lesson 4: Global Financial Integration

Overview

This lesson begins with a discussion of the meaning and dimensions of global financial integration. This discussion then moves to the causes of financial integration. Next, the discussion moves to understanding the benefits and costs of financial integration from multiple perspectives.

Relevant Module Objectives

1. Explain basic concepts of global banking and finance.

3. Compare and contrast the current issues in global banking and finance from different perspectives.

Procedure

Possible Classroom Activities

- Introduction to Global Financial Integration.
  (Time: 30 minutes) (Skills: Holistic Thinking) (Objective 1) (Related Resources: Appendix A, Häusler, Globalization of Capital, Global Banking Lesson 4 PowerPoint, Globalization101’s Investment, Taylor readings)

Introduce the topic of global financial integration.

First, show the first three minutes of the "Globalization of Capital" video to spark student interest and get them interested in the topic. Then introduce global financial integration using the PowerPoint slide presentation.

The instructor introduces the topic using the lecture notes and the PowerPoint.

Discussion Questions:

1. What is the significance of the fact that people/companies/governments can buy/sell financial products (stocks, bonds, currency, etc.) from companies/governments/banks outside their borders? Try to get the student to think about the implications of how the world might be if one could only trade financial products within the borders of their country. How does that change the
amount of money available to government/companies to invest and carry out their mission? (Slide 1)
2. How did the telegraph and European settlements worldwide help develop global financial markets (as compared to national)? (Slide 2)
3. What technologies help advance present-day, global financial markets? (Slides 2 and 3)
4. How and why does a global supply chain impact global financial markets? (Slide 6)
5. What are the advantages and disadvantages of having a small number of rules for foreign financial companies to enter a domestic market? (Slide 7)
6. What is the big deal if non-financial companies get involved offering financial services (Slide 8)
7. What are the drawback and risks of global financial integration? (Slide 9)

- Ethical Issue Question Activity.
  (Time: 30 minutes) (Skills: Holistic Thinking, and Technology Skills) (Objective 3)
  (Related Resources: n/a)

The instructor identifies an industry that interests the students and that has a number of major companies. Potential examples include energy, automobile, banking, and consumer electronics. With the students, the instructor visits the websites of three firms in that industry and together they as much as possible about their stances regarding ethical conduct and social responsibility. The instructor asks the students to identify commonalities and differences across the three firms and develop observations about the likely effectiveness of firms’ effort to promote ethical conduct and social responsibilities based on the websites. Finally, the instructor asks the following questions:
  o Symbolically, what potential role does the Internet serve in helping to promote ethical conduct and social responsibility as evidenced by the websites you visited?
  o What role does financial globalization help in promoting ethical conduct and social responsibility of these firms?
  o How do the websites affect your view of each company from the standpoint of a potential investor? What if you were an investor from a poor country like Haiti?

Resources
- Appendix A Lecture Notes Lesson 4
historically to before the financial crisis. It covers the Asian crisis and the Mexican peso crisis as well. The first few 2-3 minutes provide a great introduction to the topic]

  [Explains the forces of financial globalization, benefits and costs, what should be done to safeguard financial stability. instructors should update the statistical figures]

  [Shows trends in investment, up-to-date data, excellent source for basic data]

  [Provides a historical look at the globalization of finance]

Optional Resources

  [Discusses how best to manage the process of globalization—at the national and international levels—so that the benefits are widely shared and the costs kept to a minimum.]
Lesson 5: International Financial Markets

Overview

This lesson introduces students to financial markets. Students learn how the market functions and why they are important. Finally, the instructor can choose to have further discussion on exchange rates or the implication of international debt, particularly China's holding of U.S. currency.

Relevant Module Objectives

1. Explain basic concepts of global banking and finance.
2. Articulate the fundamentals of international investment, exchange rates, international banking.
3. Compare and contrast the current issues in global banking and finance from different perspectives.
4. Critically analyze the role of multilateral financial institutions in globalization.

Procedure

Possible Classroom Activities

  (Time: 5 minutes) (Skills: n/a) (Objective 1) (Related Resources: What if China Collected on U.S. Debt)

  The instructor shows the class the short Youtube video to get students interested in international financial markets.

- Introduction to Financial Markets.
  (Time: 40 minutes) (Skills: n/a) (Objectives 1,2 & 4) (Related Resources: Global Banking and Finance Lesson 5 PowerPoint, Truman, Boughton, and Cooper readings)

  Before starting the Powerpoint, the instructor should introduce a couple of examples of financial markets, noted in the glossary: capital markets, commodity markets, insurance markets and foreign exchange markets

  The instructors lectures and discusses basics of the international financial markets using the lecture notes and the PowerPoint presentation.

Discussion Questions
1. How do international financial markets function and why do they grow/contract?
2. What are the upsides and downsides to the growth of financial markets and the factors that lead to their growth: innovation, deregulation, and IT advances?
3. Who issues/buys/sells stocks and bonds and why? Is the bond market or the stock market bigger and why?
4. What is the difference between a currency market and the exchange rate?
5. What are the advantages and disadvantages of having most financial transactions taking place in dollars or Euros?
6. Why would a country have foreign reserves in a currency belonging to another country?
7. Why are international financial markets a crucial part of today's world?

The instructor should end the class with one of the following activities.

- Exchange Rate Activity.
  (Time: 15 minutes)(Skills: Holistic Thinking and Technology Skills) (Objectives 1, 2, 3 & 4) (Related Resources: What do the terms weak dollar and strong dollar mean?)
  Students should read the short Investopia article ahead of time to understand the concept of weak and strong currencies.

  The instructor asks the students to do the following:
  
  o Visit the Web site of a financial institutions and national newspaper that publishes exchange rate among the world’s currencies. Compare the performance of the U.S. dollar against the European euro since a specific date (say Jan 1, 2007). Ask them to find out between that date and now, has the dollar fallen or risen in value against the euro? Students can be asked to draw excel charts.
  o What would happen to the U.S. standing in the world if dollar loses its value against euro? Is the rise of euro as rival currency good for the U.S.? World? Discuss it from the social and political point of view. Ignore technical economic arguments.

- China and International Investment Discussion.
  (Time: 15 minutes)(Skills: Holistic Thinking) (Objectives 1, 2 & 3) (Related Resources: What if China Collected on U.S. Debt.)

  The instructors ask the students:
o Did China make a mistake in holding U.S. dollars? Discuss it from the point of view of China and the U.S.?
o With respect to the Chinese currency, what is the position of the Obama administration?

Resources

- What if China Collected on U.S. Debt. (2009, November 17). Retrieved from: http://www.youtube.com/watch?v=T1dDIrOCbUo. (2 min 50 sec) [to complement the China & investment discussion activity listed in the module (get students’ opinions first and then compare to videos)]

Background Readings for the Instructor


Optional Resources

Lesson 6 Introduction to the Financial Crisis

Overview

The main focus of this lesson is the Financial Crisis. Students will examine the political, economic, and cultural factors that contributed to the causes of and responses to the Financial Crisis. Finally, it will conclude with a role-play that allows students to understand the crises from multiple perspectives.

Relevant Module Objectives

1. Explain basic concepts of global banking and finance.
2. Compare and contrast the current issues in global banking and finance from different perspectives.

Procedure

Possible Classroom Activities

- Worldwide Financial Crises Primer.
  (Time: 30 minutes) (Skills: Holistic Thinking) (Objectives 1 and 3) (Related Resources: PBS Newshour explains the 2008 credit bubble, The Credit Crunch Explained, RSA Animate - Crises of Capitalism videos and Timeline: Credit crunch reading)

  The instructor shows the recommended videos to explain the 2007-2009 financial crises to the students. Alternatively, the videos could be assigned for homework and the class time is used for discussion.

  The PBS Newshour video explains the root of the financial crisis, but does not explain the response of the banks once the crises hit.

  "The Credit Crunch" video explains the response by financial system to the sub-prime mortgage crisis.

  "The Timeline: Credit crunch" article provides an overview of the Credit Crunch which resulted from the Sub-Prime Mortgage Crisis. The BBC article includes a great slide series that maps out the credit crunch and could be used as an alternative to the video.

  If the class is advanced and has a good grasp of the fundamentals, the "Crises of
Capitalism" provides a good analysis of the different narratives and gives a Marxist perspective on the crisis.

Discussion Question:

1. What role did American real estate play in the 2007-2009 financial crises?
2. How do subprime loans differ from regular loans and what are the risk and benefits?
3. What is a mortgage-backed security? What benefits and risks are associated with them?
4. How did supply and demand contribute to the sub-prime crises and the subsequent credit crunch?
5. How did banks respond to the sub-prime crises? How did their response impact ordinary people?
6. Who is at fault? How did homeowners, banks, hedge funds, investors (national and international), regulators, and real estate brokers contribute to the sub-prime crises and the subsequent credit crunch?
7. Which narratives provides the most plausible explanation for the 2007-2009 financial crisis (sub-prime crises and the credit crunch) and why? (RSA - Animate video)

- Ethical Issue Activity.
  (Time: 15 minutes) (Skills: Holistic Thinking) (Objectives 1&3) (Related Resources: n/a)

  The instructor gives the following instructions to the students:

  You are a member of the board of directors for one of the nation’s largest banks. In response to global crisis, suppose the U.S. now wants to regulate the financial service industries (banks) to maintain the integrity and stability of financial systems. What advice do you give to the bank’s executives prior to meeting with the government? Write your answer from the point of view of (a) bank depositor, (b) bank borrower, (c) home buyer, (d) small business owners, etc.

- Module Reflection.
  (Time: 15 minutes) (Skills: n/a) (Objectives 3) (Related Resources: n/a)

  The instructor asks the students the following questions:

  1) What are some of the main lessons you learned about banking and finance?
  2) How has these lessons changed your view of banks and multilateral institutions (if at all)
  3) What is something that you learned that surprised you?
4) Have you learned anything that will change your own behaviors, investments strategies, purchases, etc?

Resources


Background Readings for the Instructor


Optional Resources

Assessments

Financial Crisis Team Assessment
Analyze the financial crisis your team collected data on from two competing perspectives. Select two from below:

1. Classical economic development theory
2. Neoliberalism
3. Dependency theory
4. World-systems theory
5. Participatory development

Components:

I. Introduction
   a. Outline the basics of the financial crisis: when, where, why important
   b. Identify two perspectives used, general orientation of each.
   c. Summary of any agreement and major points of difference.
   d. 10 points – evaluated on coherence of overview and description of two perspectives

II. In essay form, describe the
   a. 1) Net capital inflows to the country, 2) government debt, 3) domestic credit to the private sector, 4) foreign exchange rates, 5) foreign reserves, and 6) inflation.
   b. Discuss changes in each around the financial crisis.
   c. 30 points – evaluated based on the use of data and clarity of presentation.

III. Discuss domestic and foreign factors that contributed to the financial crisis:
   a. Domestic examples: Possible issues: government spending, monetary/currency policy, regulation of banks, ties between state and business (for personal benefit or as industrial policy), domestic capital flight, political instability
   b. “Foreign” (external) examples: Contagion, Investor Confidence, Foreign Portfolio Investment, Large Investors, Transnational Banks, IMF policy, Trade Agreements
   c. 30 points – evaluated based on presentation of two perspectives and evidence to support each.

IV. Consequences for different stakeholders
   a. For investors in domestic economy, in government debt.
   b. For government (policy changes, political power, etc.)
   c. For citizens in terms of unemployment and poverty, public programs (education, health care)
d. 30 points – evaluated based on presentation of two perspectives and evidence to support each.

Financial Crisis Essay
Objective:
Analyze economic data on the financial crisis in one of the countries impacted by the Asian Financial Crisis of 1997

You will collect for a country based on the first letters of your last name:

A – D: Indonesia
E – Ma: Republic of Korea (South Korea)
Mc – Pe: Malaysia
Ph – Z: Thailand

You will describe the data identifying general trends or input shifts and explain how those trends are expected to influence the foreign exchange value of a currency. Your essay will be graded on how well you are able to write about macroeconomic trends and their connection to local currency value.

Components:
Introduction

Outline the basics of the financial crisis: when, where, the name of the local currency, plus key events or moments. Reading the Wikipedia article: “1997 Asian financial crisis” will provide you with some general details for each country. *Use Wikipedia cautiously, beware of statements that claim to explain why things happened. More useful as a listing of important events and actors.*

Use a couple economic indicators to describe how serious the financial crisis was

In essay form, describe the trends and shifts in macroeconomic data for your country from 1994 to 2003 using the World Bank Databank.

Seven Indicators
   a. Official exchange rate (LCU per US$, period average)
   b. Private capital flows, total (BoP, current US$)
For a and b calculate the percent change from the previous year.

c. GDP growth (annual %)
d. Inflation, consumer prices (annual %)
e. Domestic credit to private sector (% of GDP)
f. Lending interest rate (%)
g. Total reserves in months of imports

Be sure to discuss changes in each around the financial crisis.

Use the data from 1998 to 2003 to discuss the economic consequences of the financial crisis.
- Include table of data from the World Bank as an appendix to your paper. Clean up the exported version to create a proper looking table.
Appendices

Appendix A Lectures Notes Lesson 2

- IMF is a key international agency seeking to stabilize currencies.
- The IMF was founded more than 60 years ago toward the end of World War II. It is headquartered in Washington, D.C. Its original responsibility was to maintain fixed exchange rates.
- The IMF works to foster global growth and economic stability. It provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty.
- IMF provides help in dealing with: currency crisis (when value of a country’s currency depreciates sharply), banking crisis (when investors lose confidence in a country’s banking system, and excessive foreign debt crisis (when a country can’t pay back loans)
- The IMF collaborates with the World Bank, the regional development banks, the World Trade Organization (WTO), UN agencies, and other international bodies.
- The World Bank was established in 1944 and is headquartered in Washington, D.C.
- The World Bank is a vital source of financial and technical assistance to developing countries around the world.
- The World Bank is not a bank in the common sense; it is made up of two unique development institutions owned by 186 member countries: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD aims to reduce poverty in middle-income and creditworthy poorer countries, while IDA focuses on the world's poorest countries.
- The World Bank provides low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management.
- The main criticisms against the IMF are: inappropriate policy (one size fits all country), moral hazard problem, lack of accountability, anti-poor and pro-MNC policies, strict conditionality, etc.
- The main criticisms against the World Bank are: inappropriate policy, its projects are harmful to the environment, encourages corruption, anti-poor and pro-rich country policies, lack of transparency, etc.

Appendix B Lecture Notes Lesson 3

- Foreign investment is both a cause and effect of financial globalization.
Please see the introductory page of globalization101.org document entitled “investment and globalization” for latest figures and trends in foreign investment.

Foreign investment falls into four main categories: commercial loans, official loans, FDI, and FPI.

FPI is a passive form of investment; FDI is an active form of foreign investment.

Companies investment in foreign countries for various reasons: market seeking (new market), resource seeking (oil field), strategic asset seeking (knowledge), efficiency (cheap labor) seeking.

Foreign investments mainly originate in developed countries and end up in developed countries. Some developing countries are now emerging as source and destination of foreign investment.

The reasons for dramatic rise in foreign investments are: technology, lure of higher profit, the end of the Cold War, financial liberalization.

Governments can actively promote inward foreign investment through economic policies such as favorable tax rates. It can restrict foreign investments through policies such as banning foreign investment in strategically important sectors.

Positive effects of foreign investment are: capital inflows, employment generations, production advantage (including technology transfer). Concerns about foreign investment are: financial volatility, contagion effect, loss of national sovereignty, job loss due to off-shoring.

Appendix D Lecture Notes Lesson 4

- Financial globalization can be defined as the phenomenon of rising cross-border financial flows.
- The acceleration of interdependence of world economies has been reinforced by the internationalization and globalization of the financial markets.
- Cross-border financial flows now amount to trillions of dollars. (Please refer to the International Monetary Fund (IMF)’s annual publication of the World Economic Outlook for recent figures, available online for free).
- Capital flow is not a recent phenomenon only. For a discussion on the past and present of global finance, please see Taylor’s paper.
- Driving forces behind the globalization of finances are: advances in information technology, globalization of national economies, liberalization of national capital and financial markets, and competition among the providers of intermediary services. Additional factors are dramatic changes in geopolitical situation.
- Benefits associated financial globalizations are reduced risk, better terms for financing for borrowers and lenders, greater pool of resources, etc.
- National and multilateral organizations must work together to minimize risks from financial globalization.
• Economies around the world have been seriously affected by the financial crisis and slump in activity (year 2008-09).

Notes to the Pilot Faculty

Background Readings

David Hale on the Financial Crisis:
http://www.youtube.com/watch?v=m3k6SthvLv&feature=related --Summarizes the sub-prime loan crisis and its morphing into the banking crisis.