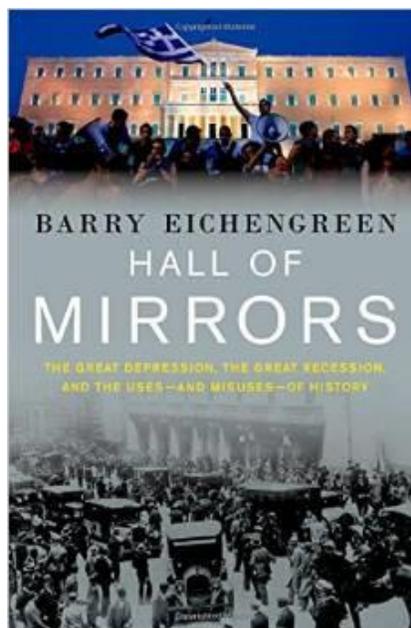


# **ECO2002 - Financial Market Reform in the European Union**

Course manual



2015-2016

SES Summer 2016

Block period 2: 25 July – 11 August 2016

Center for European Studies

Maastricht University

Maastricht, The Netherlands

**Center for European Studies**



# Chapter 1 Introduction

## Introduction

The course will focus on the principles and fundamentals underlying the organizational structure and policy reforms being implemented within the European Union as a result of the financial crisis and subsequent Eurozone calamity. A historical review of the economic and financial events of the past decade will form the groundwork for the analysis.

The objective of the course is to introduce students to the operations, regulatory framework, and policy tools impacting global financial markets within the European Union. Coverage will include regulatory reforms in the financial sector and the debate about what new directions ECB monetary policy should consider in order to increase the pace of economic growth. On the regulatory side, the basic building blocks for the Banking Union are now set, but the rule-writing and practice of policy implementation have a long way to go. A much sounder financial sector depends on having significantly increased uniformity organized through the EU single rulebook for financial institutions. Homogenous depositor protection and structural arrangements governing failing banks are key parts of the single rulebook framework build by the Banking Union.

EU institutional agreement to establish a Single Supervisory Mechanism and a Single Resolution Mechanism for banks has now been reached and institutional framework building is taking place. While the core focus of the Banking Union is countries in the euro-area, non-euro-area countries are also likely to participate. We will close with an overview of the main benefits and institutional changes needed to accommodate an integrated Capital Markets Union.

## Course structure

The course will roughly follow the presentation order of the textbook:

Eichengreen, B., *Hall of Mirrors*, 2015, Oxford University Press (copy will be provided)

<https://global.oup.com/academic/product/hall-of-mirrors-9780199392001?cc=us&lang=en&#>

Supplemental readings will be taken from a variety of sources including: **The Economist**, various professional economics journals, and working papers and reports from international organizations [Bank for International Settlements (BIS), European Central Bank (ECB), International Monetary Fund (IMF), and the Organization for Economic Cooperation and Development (OECD)] and economic research institutes [Bruegel, Council for European Studies (CES), Center for European Policy Studies (CEPS), Centre for Economic Policy Research (CEPR)].

## Prerequisites

Students must at a minimum have mastered the principles of economics as taught in an introductory post-secondary course and have a basis understanding of the central institutions of the European Union.

**Class hours and credits**

The course consists of 32 class hours divided over 3 weeks. Students earn 6 ECTS credits when they obtain a passing grade.

**Field trip**

During the initial week of class we will take a one-day field trip to visit the Belgian National Bank and EU institutions in Brussels.

## Chapter 2 Objectives

By the end of the course students will demonstrate the ability to:

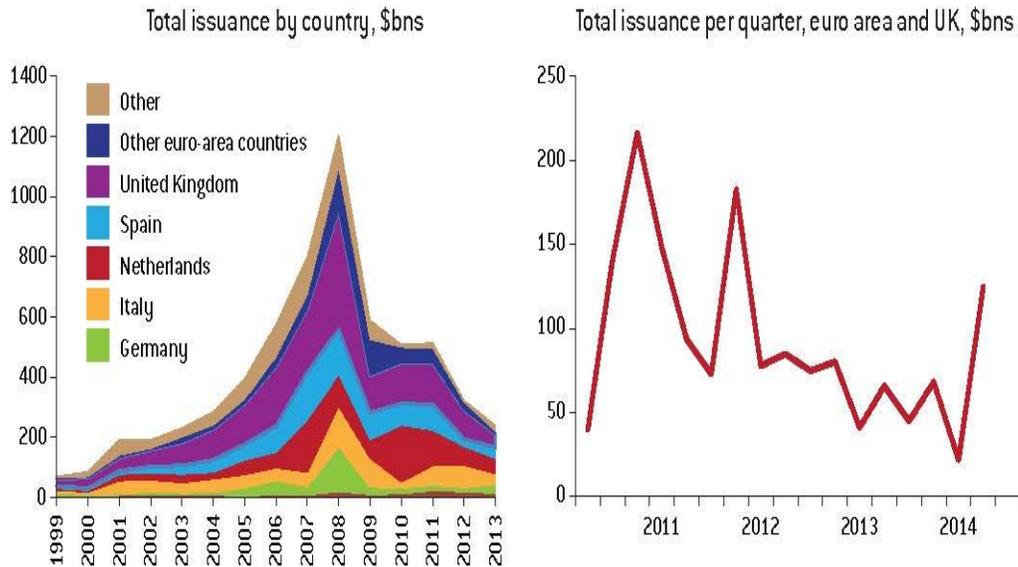
### Learning objectives

1. Understand the basic causes of the financial crisis in both the United States and the European Union and the nature of the associated regulatory and policy failures
2. Understand the current state of the economies of the United States and the European Union; how they have progressed in terms of recovery since the crisis and the current short- and intermediate-term forecasts
3. Understand the alternative fiscal and monetary policy approaches taken in the post-crisis recovery period in both the United States and the European Union
4. Understand the structure of banking and financial market reforms and regulatory mechanisms planned and initiated in European Union in the post-crisis period

### Skills development

1. Critical evaluations of public policy design and implementation
2. Ability to judge potential sources of countervailing responses by markets and institutions to new regulatory environments
3. Ability to distinguish alternative actors and their motivations: political, governmental and private-sector organizations, and market forces and institutions

### *New issuance in the EU Asset-Backed Securities market, 1999-2013 (2014Q2)*



Source: SIFMA (July 2014).

## Chapter 3 Teacher information

The professor teaching this class is **David L. Cleeton, Ph.D.** from Illinois State University and the EU Center of Excellence, University of Illinois at Urbana-Champaign.



Professor Cleeton has expertise within the areas of financial economics and European economic integration. His research has appeared in the American Economic Review, Public Finance Quarterly, Quarterly Review of Economics and Business, Health Care Financing Review, and Southern Economic Journal. He is coauthor (with Nobel Laureate Robert C. Merton and Zvi Bodie) of the textbook Financial Economics.

Professor Cleeton has served as Economics Department Chair at Oberlin College, Dean of Social Sciences and Business at Christopher Newport University, and in visiting faculty positions at Ohio State University, the University of Wisconsin-Madison, and Washington University-St. Louis. He was selected as a Fulbright Chair of EU-US Relations at the College of Europe in Bruges (Belgium) and recognized as a Fellow of the Euro Area Business Cycle Network affiliated with the Centre for Economic Policy Research in London. He currently serves as Co-chair of both the Political Economy and Economics Interest Sections of the European Union Studies Association.

### Contact information

You can reach Professor Cleeton via email at: [d.cleeton@maastrichtuniversity.nl](mailto:d.cleeton@maastrichtuniversity.nl)

## Chapter 4 Assessment

The examination rules for this course are specified in the CES Academic Guide 2015-2016. It is the responsibility of the student to carefully read this document and comply with all rules and regulations.

### Course specific assessment overview

When	Type of assessment	% Final grade
<i>Continuous</i>	Class discussion	25%
<i>Tuesdays 2 &amp; 9 August</i>	Written position papers (1,500 words or 3-5 pages in length) on: (1) Current economic position and outlook for a particular Eurozone country (2) Prioritizing regulatory reforms and actions under the Banking Union and the Capital Markets Union	20%
<i>Various</i>	Organize and lead class discussion (each student will be assigned a topic for one class session during the final two weeks of the course)	15%
<i>Thurs 11 Aug</i>	Final Exam – a series of short essay questions among which students will have some choice	40%

### General CES paper guidelines

- Please make sure to use the [CES paper template!](#)
- Lay out:
  - Make a separate title page with the title, your name, student number, college/university, programme, word count and date on it;
  - Proofread your paper carefully for spelling and grammar;
  - Number the pages;
  - For the lay out of the text, use:
    - Font: Times New Roman pt 12
    - Outlining: Justify
    - Line Spacing: 1.5
- Word count: please *exclude* the title page, references, quotes or foot notes from the final word count.
- Submit your paper through Safe Assign on blackboard (EleUM) before the deadline
- Literature references / plagiarism check: CES checks all papers for plagiarism with help of "Safe Assignment" – please note that it is therefore not allowed to use extensive quotations in your paper and that proper reference rules must be followed at all times. Sanctions will be applied if necessary. Please refer to the information below.

## How to use and refer to the literature

You are encouraged to use secondary literature, as far as available in Maastricht (at the CES reference library, or the University library) or from the internet for additional information, but principally (first of all), you should concentrate on analysing the chosen text itself.

If you quote directly (from the text) or indirectly (referring to the contents of a text), you should indicate this clearly, stating author, title, editor, date of print and page-number(s). Additionally you need to list all literature used for your paper (primary and secondary) at the end of your paper.

All submitted papers will be checked with an anti-plagiarism programme. In cases where (parts of) the paper clearly come from someone else's work and or the internet and are not quoted as such, sanctions will be taken. Depending on the severity of plagiarism, sanctions will go from taking a certain percentage off the final grade to full failure of the course (please also refer to the CES Student Handbook for more information).

### Please note: sanctions

*For every rule mentioned above which you don't comply with, 5% of your final grade will be taken away. An additional 5% of the final grade will be taken off for every 24-hour delay.*

#### For example:

John received an 8 for his paper.

However he forgot to number the pages, and handed it in three days late.

5% of his grade is 0.4.

His final grade will be  $8 - 0.4$  (rule 2)  $- 1.2$  (rule 4) = **6.4**

## How to hand in papers

All written papers need to be submitted through Safe Assignment on blackboard (EleUM) before the deadline. Also, please bring a hard copy to class.

**IMPORTANT:** Please make sure that your paper adheres to all necessary requirements before handing it in. Papers that are handed in late will not be graded!

## Resit options

When assessment is incomplete and no grade can be assigned (for example when students fail to do hand in a paper or do a presentation), 'No grade (NG)' will be awarded which automatically constitutes a fail.

Students who receive a failing final grade (5.4 or lower) can do a resit. In this course the final grade is made up of 25% Class discussion + 20% Position papers + 15% Class discussion + 40% Final Exam.

The resit consists of an oral exam that covers all topics in class. If necessary, students can take the exam via Skype at their home university (proctored). It is not possible to do a resit for just the participation, case study or the personal development paper.

Please note that the resit can only take place after the final grade has been established.

In the end, the highest final grade counts and will be put on the transcript. For example, if a student obtained a 5.3 as original final grade and then received a 4.7 for the resit, the transcript will list 5.3 as final grade for the course. If a student obtained an NG and then a numerical grade, the numerical grade will be listed on the transcript.

**EVALUATION FORM: INDIVIDUAL PRESENTATION**

Meeting #: \_\_\_\_\_

Presenter(s): \_\_\_\_\_

<b>Evaluation:</b>	<b>Needs Improvement</b>					<b>Very Good</b>	<b>or:</b>	<b>Not Relevant (NR)</b>
	--	-	o	+	++			

	<b>Eval.</b>	<b>Comment</b>
<b>Content</b> The presenter: <ul style="list-style-type: none"> <li>• Places the case in a broader context?</li> <li>• Helps the audience to understand the main points of the case?</li> </ul>		
<b>Integration</b> The presenter: <ul style="list-style-type: none"> <li>• Applies the literature to the case?</li> <li>• Makes links to previous meetings?</li> </ul>		
<b>Presentation</b> <ul style="list-style-type: none"> <li>• Well-structured?</li> <li>• Good visual aids?</li> <li>• Aware of audience?</li> <li>• Keeps audience attention?</li> <li>• Interacts with audience?</li> <li>• Uses illustrative examples?</li> <li>• Timing?</li> <li>• Original?</li> <li>• Stimulate further study?</li> </ul>		
<b>Case and Discussion Questions</b> <ul style="list-style-type: none"> <li>• Well answered?</li> <li>• Discussed with group?</li> <li>• Two own questions?</li> </ul>		

## Chapter 5 Attendance rules

The attendance rules for this course are specified in the CES Academic Guide 2015-2016. It is the responsibility of the student to carefully read this document and comply with all rules and regulations.

### Course specific attendance rules

This course is interactive and each class builds on the previous ones. Therefore we strongly urge students not to miss any classes. Active participation is a prerequisite for this course and you are expected to be on time. Absence, being late or not being prepared will negatively affect your participation grade.

At CES, students are expected to attend all meetings. In case circumstances should prevent students from attending class, they are not allowed to miss more than one meeting (2 hours). For a second missed meeting, or a missed double session (4 hours) or a missed field trip, students need to do a make up assignment to comply with CES attendance requirements. Students who miss more than 4 hours of class automatically fail the course.

The professor notes attendance at the start of each meeting. In order to be registered as 'present' students need to be on time and participate in an active manner. Students who are more than 15 minutes late or who leave before the meeting has officially ended will be registered as absent.

In case of absence due to illness or other personal circumstances, students are required to email the professor and programme coordinator before the start of the class. The written notification should include the students name and a brief description of the reason or cause and the expected duration of the absence.

#### *Make up assignment*

Students who miss 4 hours of class or who have missed a field trip will not have met the attendance requirements of a CES course and can apply for a make up assignment to comply with the CES attendance requirements.

The student should submit a written request to the CES programme coordinator within 3 days after the missed meeting. The CES Examination Committee will decide upon the validity of the reasons given. The CES professor determines the nature and volume of the assignment, which will be proportional to the number of meetings missed and the topics discussed. Make up assignments related to missed field trips might require students to do the excursion independently and at their own expense. The assignment must be completed and submitted to the CES programme coordinator via email within 10 working days.

The responsible CES professor will grade the make up assignment with a pass or fail. Students who receive a pass for the make up assignment will have met the attendance requirement. No final grade can be awarded for courses in which students have not met the attendance requirement. This will result in a 'No Grade (NG)' on the transcript. An NG automatically constitutes a fail and no credit is awarded. Students who miss more than 4 hours of class automatically fail the course.

### *Electronic devices*

Laptops, iPads, cell phones and other electronic devices are not allowed in class unless allowed by the teacher. Students need to ask permission from the teacher. In this class laptops are allowed but strictly for course-related use such as consulting and annotating slides (you can download these onto your own computer).

### **Field trip**

The field trip is an intrinsic part of the course and attendance is therefore mandatory – please note that individual travel plans that might clash with the excursion are not a valid reason for missing it!

### **Participation**

Active participation is a prerequisite for this course and you are expected to be on time. Absence, being late or not being prepared will negatively affect your participation grade.

# Chapter 6            Literature

## **Main literature**

You will receive your books from CES at the start of the course. Please note that the books are on loan for a refundable deposit. You will get your deposit back at the end of the course provided you return the books in good shape.

The primary textbook for the course is:

- Eichengreen, B., *Hall of Mirrors*, 2015, Oxford University Press.

It is suggested that you browse the book before the start of the course and continue reading it during the first two weeks. In fact, during the first 3-week session you should start reading the book – if you are going on a study tour take it along!

Additional readings will be provided in the form of electronic documents posted via EleUM. A preliminary reading list can be found in the next section. Both the textbook and additional readings will be the central focus of all class discussions.

# Chapter 7 Overview of Classes

## General overview of topics per meeting

Below you will find an overview of the topics that will be addressed during class meeting and the accompanying reading assignments. Particular individual assignments for leading class discussions will be made at the end of the first week of class.

## Monday & Tuesday 26-26 July

### The Financial Crisis

It is suggested that you thoroughly browse the book before the start of the course and continue reading it during the first two weeks:

Eichengreen, B., *Hall of Mirrors*, 2015, Oxford University Press (copy will be provided)

Also read a series of articles published in [The Economist](#) and a review article:

[The Economist](#), Schools Brief on Financial Crisis, September-October 2013.

O'Rourke, K.H. and A.M. Taylor, *Cross of Euros*, *Journal of Economic Perspectives*, Vol. 27, No. 3, Summer 2013.

## Wednesday 27 July – Field Trip to Brussels

## Thursday 28 July

Be ready to discuss the **Current Economic Climate** by surveying the following:

Bank for International Settlements, *86th Annual Report*, June 2016.

International Monetary Fund, *World Economic Outlook*, April 2016.

Organization for Economic Cooperation and Development, *Economic Outlook*, June 2016.

## **Monday 1 August**

### **European Financial Institutions and Markets:**

European Central Bank, *Financial Integration in Europe*, April 2016.

IMF, Potent Policies for a Successful Normalization Risk Taking, *Global Financial Stability Report*, April 2016.

## **Tuesday 2 August:**

### **The Sovereign Debt Crisis:**

Ardagna, S. and F. Caselli, The Political Economy of the Greek Debt Crisis: A Tale of Two Bailouts, *American Economic Journal: Macroeconomics*, Vol. 6, No. 4, 2014, pp. 291-323.

European Central Bank, IMF Surveillance in Europe, Occasional Paper Series, No. 158, January 2015.

Monnet, E., S. Pagliari, and S. Vallee, Europe between Financial Repression, Working Paper 2014/08, Bruegel.

Ross, G., Economic Governance and Democratic Legitimacy in the Eurozone Crisis. *Perspectives on Europe*, Spring 2013, Vol. 43, No. 1, Council for European Studies.

## **Wednesday, Thursday and Monday 3, 4 & 8 August**

### **The Changing Regulatory Environment:**

European Commission, Economic Review of the Financial Regulation Agenda, May 2014.

European Commission, European Financial Stability and Integration Review, April 2015.

Goodhart, C. and E. Avgouleas, A Critical Evaluation of Bail-ins as Bank Recapitalisation Mechanisms, Discussion Paper, 10065, July 2014, Centre for Economic Policy Research.

House of Lords, Review of the EU Financial Regulatory Framework, revised transcript of evidence taken from Nicolas Veron and Simon Gleeson before The Select Committee on the European Union, Economic and Financial Affairs (Sub-committee A), 9 September 2014.

Lannoo, K., Which Union for Europe's Capital Markets? ECMI Policy Brief, No. 22, February 2015, Center for European Policy Studies.

Lannoo, K., ECB Banking Supervision and Beyond, Report of the Task Force, December 2014, Center for European Policy Studies.

Veron, N., Banking Union in Nine Questions, statement prepared for Interparliamentary Conference's third session, Completing the Banking Union and Financing the Real Economy, 2014, Bruegel.

Veron, N., Europe's Radical Banking Union, Essay and Lecture Series, 2015, Bruegel.

## **Tuesday and Wednesday 9-10 August**

### **Financial Markets and Institutional Restructuring and Fiscal and Monetary Policy:**

Bricongne, J-C, M. Demertzis, et. al., Macroeconomic Relevance of Insolvency Frameworks in a High-debt Context: An EU Perspective, European Economy Discussion Paper 032, June 2016.

Demertzis, M. and G.B. Wolff, The Effectiveness of the European Central Bank's Asset Purchase Programme, Bruegel Policy Contribution, June 2016.

ECB, *Financial Stability Review*, May 2016.

European Commission, The Euro Area Recovery in Perspective, Chapter 1 in Quarterly Report on the Euro Area, Vol. 14, No. 3, October 2015.

Schoemaker, D. and N. Veron, editors, European Banking Supervision: The First Eighteen Months, Bruegel Blueprint Series, No. 25, 2016.

Valiante, D., Europe's Untapped Capital Market: Rethinking Integration after the Great Financial Crisis, European Capital Markets Expert Group, Centre for European Policy Studies, February 2016.

## **Thursday 11 August: Exam**