Overview:
This seminar examines how legislation and regulation influences the structure of financial markets and how players in these markets intervene in the political process to create or modify legislative and regulatory outcomes. Particular emphasis will be placed on the United States. International comparisons will also be present. The class will assume that students have had exposure to microeconomics and finance but not to political theory. A brief introduction to political theory will be provided. The approach will be similar to that used in microeconomics, except that transactions will be made through voting institutions rather than through economic exchange.

The seminar will use an interdisciplinary approach with readings from political science, economics, law, and history. Most of the reading will be non-technical but there will be bursts of formal models and econometrics.

One book is to be purchased. A large majority of the other readings are posted on Blackboard. All other required readings will be assembled in a course packet. Some non-required items will be on reserve.

The seminar will make use of Voteview, a database of all congressional roll call votes from 1789 to 2000, and software for looking at the votes. There will be a tutorial on Voteview. The program should be available on cluster computers. If you have a Windows computer of your own, you can download Voteview as freeware from voteview.ucsd.edu (no www). Go to the data download page and scroll until you find Voteview. Then, just follow the instructions. Voteview takes somewhat under 100MB of disk space if you want the entire history of the House and Senate. You can delete Congresses you don’t want to save disk space. You can also download Voteview from voteworld.berkeley.edu.

Course Prerequisite:
ECONOMICS TBA?

Course Requirements:
There will be weekly assignments, typically taking the form of 2-3 page reports. There will be a “midterm” exam on TBA and a final exam.
Students will be asked to make critical presentations of some of the readings. For several of the class assignments, students will be asked to study congressional roll call votes using VOTEVIEW, a database that includes all roll calls between 1789 and 2000. VOTEVIEW was programmed by Boris Shor ’96.

Approximate weights in final grade: midterm 25%, final 35%, assignments 15%, presentations 15%.

**Feb. 1-3: Politics Really Matters: The Case of Conrail**

Required Readings.


Recommended:


Class exercise: The lectures will be devoted to explicating the theory of pivotal politics and using the theory to understand why Conrail was privatized through a public offering rather than being sold to Norfolk and Southern as proposed by Elizabeth Dole, Secretary of Transportation in the Reagan administration. More recently, Conrail was absorbed by Norfolk and Southern and the Chessie System. Option 1. Use the web or the library to learn what you can about the sale of Conrail. Write a brief 2-3 page note emphasizing any insights provided by the theory of pivotal politics (see Brady and Volden) as to why Congress did not insist in the 90s, as against the 80s, that Conrail be preserved. Option 2: More recently, United’s attempt to absorb USAirways was blocked by the government. Did Conrail disappear and USAirways survive for political reasons? Or can you make a case, in terms of economic efficiency, that both outcomes were reasonable?

**Feb. 8: Nuts and Bolts and Alphabet Soup: SEC, CFTC, the Fed and Other Regulators of Financial Markets: Emphasis on Selective Disclosure.**

Reading Assignment: You can get an official view of what these agencies do and how they handle a current “hot” issue by using the following URLs:

- Regulatory Agencies
  - The Investor’s Advocate: How the SEC Protects Investors and Maintains Market Integrity [http://www.sec.gov/about/whatwedo.shtml](http://www.sec.gov/about/whatwedo.shtml)
  - The CFTC at a Glance. [http://www.cftc.gov/cftc/cftcabout.htm](http://www.cftc.gov/cftc/cftcabout.htm)
- Selective Disclosure
  - SEC Selective Disclosure Conference Call
[You will need RealPlayer or similar to listen to this. It is a one hour recording, so you may want to sample. The conference call provides some insight into the interplay between the regulator and the regulated.]

http://www.videonewswire.com/BRTABLE/022500/

- Also read the assembled set of NYTimes stories assembled in the document “Selective Disclosure” on the course web page.

**Feb. 10-15: The Rule of Law and Financial Markets around the World**

Readings:


Recommended:


**Feb. 17: Activists and Finance: California Redwoods**

Reading:

Feb. 22-24: To be Replaced with a segment on SOX and Corporate Governance Regulatory Change and Regulatory Gridlock

Reading


March 1-3: Regulatory Failure and the Mortgage Market

Readings:


Recommended:


Assignment: Is the federal guarantee of private pension plans likely to generate a massive repeat of the S&L crisis. Use the web and library to learn what you can about this issue. Evaluate possible policy changes such as mandating that all pension plans be defined contribution rather than defined benefit, eliminating government insurance of defined benefit plans, eliminating congressional control of funding requirements by delegating this power to the Fed or another independent regulatory agency. Comment on the influence of politics in the development of this crisis.

March 8, 22: Populism and Regulatory Structure: Why the US, Unlike Others, Has One Regulator for Securities, Another for Futures.

Readings:


Recommended:


**March 10: Midterm Examination**

**March 24: Federalism and Corporate Finance**

Reading:


**March 29-31 : The Political Evolution of Bankruptcy Law**

Readings:


Recommended:


**April 5: Don’t Trust the Courts**

Readings:


Recommended:


**April 7-12: Credit Markets for the Poor and Disadvantaged**

Readings:


*Choi, James C., David Laibson, and Brigitte C. Madrian, 2004 “Plan Design and 401(k) Savings Outcomes”, forthcoming, National Tax Journal

Recommended:


April 14-19: Political Intervention in Credit Markets

Readings:


Recommended:

* Bolton, Patrick and Howard Rosenthal, 2002 “Political Intervention in Credit Markets”. Journal of Political Economy, 2002. A theory paper with a good deal of algebra. The paper also contains an historical section and references to the literature on intervention in credit markets in the United States in the 18th and 19th centuries. I will distribute reprints in class..

Assignment: Use Voteview to examine congressional voting on debt repudiation. Was there a division in Congress? Why do the votes seem inconsistent with Kroszner’s conclusions about financial markets? Can you reconcile the observations about voting with the observations about securities prices?
April 21-26: National Elections and Equity Markets—Cause and Effect

Readings:

April 28: Leftovers and Conclusions
A postscript on lectures 9-11, 15-16, and 18-19.
Reading. Entertaining.