

In the last five years, the United States has undergone a financial crisis unparalleled since the Great Depression. Most major economies and economic blocs continue to suffer from its undertow. In particular, the Eurozone is in the midst of an existential crisis of its own, which casts a shadow on the prospects for the U.S. economy. While the road ahead is unclear, it will be fundamentally influenced by the evolution of the Eurocrisis.

The U.S. financial crisis and its management have implications and lessons for the Eurocrisis, but there are fundamental differences between them as well. The broad goal of this project is to provide a comparative understanding of these similarities and differences.

### The Task

The charge of this group is to provide **(a)** a comparative assessment of the causes of and lessons from the U.S. and European financial crises, **(b)** a comparative assessment of the roles, actions and limitations of the Federal Reserve and the European Central Bank, and **(c)** an assessment of future of the Euro and its implications for the U.S. financial system.

Mirroring the objectives of the group, three subgroups will be formed dealing with one each of the following tasks:

- Financial Crises: Causes and Lessons
- Central Banking: Roles, Actions and Limitations
- The Euro: Outlook and Consequences

Among others, subgroups should consider the following issues and questions in their written reports and oral presentations:

#### **Financial Crises: Causes and Lessons**

Examine the policy environment that led to the crises in the U.S. and Europe. Discuss the purpose and special features of financial markets, such as issues of externality and market failure. Address the role of regulation and ask what the challenges of a sound regulatory framework are in a globalized economy. What key aspects of regulation would you like to see in the future?

#### **Central Banking: Roles, Actions and Limitations**

The European Central Bank has resisted enormous political pressure in sovereign bailouts in Europe. Why has it done so? What advantages does the U.S. policy apparatus have on Europe? What actions of the Fed and the ECB been similar or dissimilar? How is the debate on central bank autonomy affected by the crises?

#### **The Euro: Outlook and Consequences**

Examine specific developments in Europe resulting in an existential challenge for the Euro. Is the Eurozone an optimum currency area? Discuss possible ways in which a fracture of the Eurozone may occur. What exposure does the U.S. have to the Euro crisis? To what extent does an understanding of the collapse of the Bretton Woods system assist in formulating an outlook for the Euro?

*Note:* All subgroup reports should reflect a clear understanding of economic theory. It is critically important that your arguments and conclusions be based on relevant data and empirical evidence.

## **Group Meetings**

Group meetings will be used to gauge progress by subgroups and facilitate discussion and coordination between them. Each subgroup will make presentations at several such meetings and respond to questions from the full group.

This process should result in a tighter, more thoughtful written report as well as a focused and cogently argued oral presentation to the full Senior Session class. It is important to keep in mind that the oral presentation will not be a verbatim presentation of the written report, and consequently, it will be important to make incremental progress on both through the semester.

## **The Process**

My role is that of a facilitator for the group project. I will make subgroup assignments at our initial meeting and provide you with input for the next steps. I will suggest sources you should begin with, though the burden acquiring resources and finishing tasks in a timely manner will be entirely on you. I will always be available for advice on any aspect of your project.

Working in groups requires some special abilities and it is not always easy to do. For instance, you may feel you are carrying too much load relative to others. Keep in mind that group work, and the challenges of the group, are best met when personal biases and considerations are set aside. To do this requires some maturity and reflection, and I ask that all of you think about this matter with some seriousness because there are life-lessons to be learnt in this.

To keep the issue clear, I will set aside the first five minutes of each group meeting for each of you to write and give to me a confidential paragraph on your group experience till that point.

## **Grading**

The weights on the two components of the group project – the written report and the oral presentation – will be provided to you by Professor Smith.

At the conclusion of the project, I will solicit from each of you your confidential and candid assessment of the contributions of each member of your subgroup. You will be asked to allocate 100 points between your group members to reflect their relative effective contribution to the project.

Any variations in the grades of students within each subgroup will be based on your responses.