**An Institutionalist's Approach to the Teaching of the Great Recession in an Undergraduate-Level Money and Banking Course**

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**Abstract**

The purpose of my presentation will be to share how I've incorporated discussion of the roles of institutions and power in my course on money, banking, and financial institutions. In the course, I address topics including the nature of money and monetary standards, financial institutions, central banking, monetary policy, an introduction to monetary theory, and the impact of inflation; in addition to these more traditional topics, I spend substantive class time examining the pros and cons of regulation on financial institutions and financial markets, especially regulation in relation to the Great Recession. Early on in the course, I require students to read articles on the history of the development of the U.S. currency system and the relatively recent development of local currencies across the U.S. to help set the stage for the role of institutions in money and banking sectors. During the middle third of the course, students are assigned chapters covering financial instability, strains on the financial system, regulation of the banking system and the financial services industry, as well as the articles, "A Christian Perspective of the Current Economic Crisis" by Charles M. A. Clark and other Institutionalist-leaning articles. I also have students view a Frontline episode entitled "Inside the Meltdown," which highlights the role of economic power in the lead-up to the Great Recession. Lastly, I have students complete service-learning hours with Junior Achievement of Northeastern Pennsylvania, an organization that, among other goals, strives to teach basic financial concepts to local elementary and high school students. The service-learning activity helps students to take what they've wrestled with in the classroom and help young people understand the importance of understanding money, as well as financial markets.

Students taking my course, ECON 353: Money, Banking, and Financial Institutions, are typically juniors or seniors majoring in accounting and/or finance with their background in economics usually consisting of principles classes in both microeconomics and macroeconomics.  For this course, I use Burton and Brown's textbook, *The Financial System and the Economy:  Principles of Money and Banking*, to provide the general framework for the course; the textbook's authors highlight the importance of understanding the role of institutions and economic and political power in the functioning of money, banking, and financial markets in an economy.  Supports to the textbook's core concepts include several related articles, as well as the viewing of two films, one of which is titled *The Ascent of Money*, a documentary providing historical context as it pertains to the functioning of money and banking as we experience it today, as well as a *Frontline* episode detailing the major events of the 2007-2008 U.S. financial crisis.  In addition to the semester-long classroom-intensive work, students must also complete service-learning hours with Junior Achievement of Northeastern Pennsylvania, an organization that, among other goals, strives to teach basic financial concepts to elementary and high school students.

During the first third of the course, I require students to read an article on the history of the development of the U.S. currency system.  The article, "The U.S. Currency System:  A Historical Perspective," written by Steven Russell (1991), is quite a lengthy read; to assist students in seeing the value of the assigned article, I provide students with access to my summary notes, and I also tell students to read the article with an eye toward seeing the bigger picture, i.e., understanding that the article's author is attempting to make a case against the typical historical perspective that "the modern currency system meets the needs of our economy more efficiently than could any of the alternatives suggested by history," i.e., Russell suggests that the prevalent view that the development of the U.S. currency system is the result of older institutions being replaced by more efficient ones is flawed given a close examination of the role politics played in the development of our currency system (pg. 34). A discussion regarding the relatively recent development of local currencies across the U.S., specifically the Ithaca HOUR, along with discussion of Russell's article, helps set the stage for discussion of the role of institutions in the continued functioning of the economy's money and banking sectors discussed during the middle third of the course.

During the middle third of the course, students are assigned chapters covering financial instability, strains on the financial system, regulation of the banking system and the financial services industry, chapters that I have included as a part of my money and banking course since I first started teaching it over ten years ago and, prior to the most recent financial crisis, felt the need to explicitly make the case to students that studying such material was worth their time given the then seemingly successful functioning of the financial system. Since the occurrence of the most recent financial crisis, this need has disappeared.

To this section of the course, I've added the article, *A Christian Perspective of the Current Economic Crisis* by Charles M. A. Clark to the reading list; other Institutionalist-leaning articles have been a part of the reading list for several years. Two articles I've assigned include Hanc's (1999) *Deposit Insurance Reform: State of the Debate* and Diamond & Dybvig's (1986) article *Banking Theory, Deposit Insurance, and Bank Regulation*. What I especially like about these two articles is the attention paid to the concepts of narrow banking and traditional banking, and I ask students to think about the consequences of adopting such options as opposed to the (resignedly) accepted "banks need to be free to compete but provided a safety net because they are too big to be allowed to fail" philosophy. Students are also asked to think about the potential consequences of such a change on the necessity for deposit insurance leading students to recognize the concession that bank depositors may ultimately need to pay fees for the services a narrow bank would provide, something that we would not consider out of the ordinary in any other service industry but is nigh incomprehensible to depositors accustomed to free checking services.

A recently added article is Gorton and Metrick's (2013) *The Federal Reserve and Panic Prevention: The Roles of Financial Regulation and Lender of Last Resort*. What I especially like about Gorton and Metrick's article is their discussion of the establishment of the Federal Reserve in response to the perceived failure of the private bank clearing houses and the Aldrich-Vreeland Act (passed in 1908 in response to the Panic of 1907) to stave off bank panics. Further, they highlight the Federal Reserve's adopted policy of creating a culture of a "reluctance to borrow" such that when banks did borrow from the discount window, they were assumed to be in trouble, and this worked against the Federal Reserve when trying to counteract the detrimental effects of the Great Depression (pg. 52).

Also highlighted in Gorton and Metrick's article is the role of Section 13(3), part of the Emergency Relief and Construction Act of 1932, as related to the financial crisis of 2007-2009 and how the Dodd-Frank Wall Street Reform and Consumer Protection Act (passed in 2010) expanded the Federal Reserve's role as a supervisor of financial institutions. Section 13(3) granted the Federal Reserve emergency-lending power that was ultimately utilized during the financial crisis to extend help to the shadow banking sector, including the primary dealers Lehman Brothers, Merrill Lynch, and Goldman Sachs (pg. 56, 58-59). The Dodd-Frank Act, according to Gorton and Metrick, "unambiguously expanded the Fed's role as a supervisor of institutions," though "political and media pressure led to some restrictions on the Fed's discretionary power as a lender of last resort" (pg. 59-60).

At the conclusion of the second third of the semester, I have students view a *Frontline* episode entitled "Inside the Meltdown," which highlights the role of economic power and regulations (or lack thereof) in the lead-up to the Great Recession. I recently found a set of discussion questions with an outline of answers that I distributed to students this semester as a way to help students make sense of the vast amounts of information they were being presented within the hour-long documentary. You can find the document here: http://www.docfoc.com/inside-the-meltdown-discussion-questionsdocx.

The last third of the semester, I return to mainstream monetary theory, though I try and remind students of the real-world workings of the Federal Reserve and, especially this semester, I've had many opportunities to raise with students the question of aa vision for the Federal Reserve and the proper role of the Federal Reserve's chairperson given the election of Donald Trump to the presidency and his seeming dissatisfaction with the current chairperson, Janet Yellen. For better or for worse, current events have made it easier to engage students in the class material, including the relevance of learning and understanding the theories behind money, interest rates, and monetary policy.

Lastly, I have students complete service-learning hours with Junior Achievement of Northeastern Pennsylvania, an organization that, among other goals, strives to teach basic financial concepts to local elementary and high school students. Prior to the 2007-2009 financial crisis, my attempt to emphasize the very real risk associated with unfettered financial markets seemed to fall on deaf ears; following the crisis, students were quick to point out the lack of responsibility taken by consumers of loans, and this opened the door for the service-learning activities I now require, as it is often quite easy to get students to recognize the dearth of education on financial issues in the elementary and high schools; students' understanding of the nature and workings of money, banking, and financial institutions is now seen as an acquired skill students might then use to educate their family members, friends, and community members on financial matters relevant to anyone participating in the U.S. economy. The service-learning activity helps students to take what they've wrestled with in the classroom and help young people grasp the importance of understanding money, as well as financial markets.  Students are assigned a journaling activity, and I very much enjoy reading the results of students' journaling, as many of the students write how they were not looking forward to the service-learning activity, but found teaching financial concepts to younger students thoroughly enjoyable.

Textbook:

Burton, M., & Brown, B. (2009). *The financial system and the economy: Principles of money and banking* (5th ed.). Armonk, NY: M.E. Sharpe.

Chapter 11 – Financial Instability and Strains on the Financial System

Chapter 12 – Regulation of the Banking System & the Financial Services Industry

Selected Articles:

Gorton, G., & Metrick, A. (Fall 2013). The federal reserve and panic prevention: The roles of financial regulation and lender of last resort. *Journal of Economic Perspectives*, *27*(4), 45-64.

Clark, C. M. A. (Spring 2009). A Christian perspective of the current economic crisis. *The American Economist, 53*(1), 16-27.

Hanc, G. (1999). Deposit insurance reform: State of the debate. *FDIC Banking Review, 12*(3), 1-26.

Diamond, D. W., & Dybvig, P. H. (1986). Banking theory, deposit insurance, and bank regulation. *Journal of Business, 59*, 55-68.

Film:

Frontline: Inside the Meltdown

The Ascent of Money Episode 1: From Bullion to Bubbles