Problems with the debate

- Theory versus reality
- Scale of analysis
- Factors included in analysis and confusion over cause and effect
- Assumption that one place’s experience can be extrapolated to others
- Disagreement over goals

Is globalization irreversible?

The Smoot-Hawley Tariff Act (1930)

- New US import tariffs
- Retaliation by foreign governments

Source: http://www.economist.com/node/12798595
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Money makes the world go round: International financial markets & the international monetary system

International Capital and Currency Markets

1. What has affected the increase in capital and currency flows around the globe?

2. What types of international capital are available to corporations and what are the relative risks and benefits of them?

3. What types of currency exchange instruments are available to corporations and what are the relative risks and benefits of them?

4. How and why do governments intervene in capital and currency exchange markets?

Key Markets

International Bond and Loan Markets

**Debt:** Repay principal plus interest

International Equity Market

**Equity:** Part ownership of a company

Foreign Exchange Market

**Exchange rate:** Rate at which one currency is exchanged for another

Drivers of international capital market expansion

* **Information Technology** (the electronic herd)

* **Deregulation** of national capital markets

* **Securitization** (new financial instruments)

* **Privatization** (new investment opportunities)

* **Economic growth** in developing countries
International bonds

Eurobonds
Bond that is issued outside the country in whose currency the bond is denominated

Foreign bonds
Bond sold outside a borrower’s country and denominated in the currency of the country in which it is sold

Risky business: risks associated with international debt and equity markets

* Lack of regulation
* High interest can mean high risk
* Currency fluctuations
* Overextension of obligations
* Lack of local knowledge can affect flows

The global pool of money got too hungry, National Public Radio

Michele Norris, All Things Considered, NPR
Ira Glass, This American Life, NPR
Alex Blumberg and Adam Davidson, Planet Money, NPR
I wouldn’t have loaned me the money. And nobody that I know would have loaned me the money.

No Income
No Asset

What happened?

More people wanted bonds than we could produce. We couldn’t produce enough.

Mortgage-backed bonds (a.k.a. CDO or collateralized debt obligation)

The global pool of money


SIVA
Stated income, verified asset

SISA
State income, stated asset

NIVA
No income, verified asset

NINA
No income, no asset
This is Glen Pizzolorusso, who was an area sales manager at an outfit called WMC mortgage in upstate New York. Just to repeat, he was making 75 to a 100 grand a month. That’s over a million dollars a year. Glen was just out of college.

Glen had five cars, a 1.5 million dollar vacation house in Connecticut, and penthouse that he rented in Manhattan. And he made all this money making very large loans to very poor people with bad credit.

Glen Pizzolorusso: We looked at loans. These people didn’t have a pot to piss in. They can barely make a car payment and we’re giving them a 300, 400 thousand dollar house.

Alex Blumberg: But Glen didn’t worry about whether the loans were good. That’s someone else’s problem. And this way of thinking thrived at every step of this mortgage security chain.

Alex Blumberg: The problem was that once property values starting going down, it set off a reverse chain reaction, the opposite of what had been happening in the bubble. As more people defaulted, more houses came on the market. With no buyers, prices went even further down ...

HUGE DEMAND FOR MORE MORTGAGES

But the problem is that the lender can’t find any more folks to buy his mortgage. Everyone who qualifies for a mortgage already has and ...