

# Politics, Law and Finance

Wintersemester 2021

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## Course Description

Governments pass laws to regulate the domestic banking sector or supervise securities markets. Similarly, governments negotiate international rules governing banks, foreign direct investment, and trade. In short, the process of negotiating and implementing legal rules is intimately connected to politics. This course offers the opportunity to learn how politics shapes the legal rules governing banks, stock markets, debt, trade, and investment. For example, we will examine the politics underpinning the Basel III Banking Accords, the politics involved in investor-state dispute settlement processes, and the politics on international rules concerning trade-finance. In this context, the course discusses the ethical and moral dilemmas implicit in finance. Should multinational corporations be allowed to sue governments if they pass environmental laws that undermine the company's profitability? Should bondholders sue the Argentinean government for repayment even if this might limit social welfare policies? This course is intended for students interested in law, business, and politics. Students will gain a fundamental understanding of the relationship between domestic and international law and how political dynamics connect both dimensions.

## Course Objectives and Learning Outcomes

- Introducing participants to the rationales and main elements of financial regulation, so that they understand the 'why', 'how' and 'who', regardless of what concrete regulatory issue they will be looking at in the future.
- Exploring trade offs involved when regulating finance and trade and examine how politicians determine whose preferences they pay attention to.
- Enable participants to follow and shape the debate around financial markets regulation, be it their current or future role in the financial sector, as legal practitioner, central banker, policy maker, researcher or NGO-representative.

## Times and Location

- Mi, 13.10.2021 13:00-15:30 Uhr, D5.1.003
- Mi, 20.10.2021 13:00-15:30 Uhr, D5.1.003
- Mi, 27.10.2021 13:00-15:30 Uhr, D5.1.003
- Mi, 03.11.2021 13:00-15:30 Uhr, D5.1.003

- Mi, 10.11.2021 13:00-15:30 Uhr, D5.1.003
- Mi, 17.11.2021 13:00-15:30 Uhr, D5.1.003
- Mi, 24.11.2021 13:00-15:30 Uhr, D5.1.003
- Mi, 01.12.2021 13:00-15:30 Uhr, D5.1.003
- Mi, 15.12.2021 13:00-15:30 Uhr, D5.1.003

## Class Modalities

Each unit consists of several components.

- **Knowledge transfer:** We start with an interactive lecture. Your active participation in the discussion is essential.
- **Reality check:** Prior to the unit, the students are asked to identify a recent newspaper article illustrating the topics discussed in the assigned readings (more on this below). The instructor will call on students during the class to present their example and explain why it is a relevant illustration of the theoretical concepts being discussed.
- **Case Study Presentation:** Students will be assigned to teams. Each team will present an analysis of a historical case (also more on this below). The specific case is assigned by the lecturer. Each student will participate in one of these presentations during the course of the semester.
- **In-Class Simulation:** Finally, the entire class will participate in a short simulation intended to illustrate (or critically examine) the applicability of the theories and concepts discussed so far.

## Assignments

- **Wiederholter schriftlicher Nachweis gründlicher Textlektüre (20%):** Each week, students are required to submit one newspaper article from a reputable newspaper. In addition, students must write a short statement (about 400-500 words), outlining how the newspaper article is related to this week's readings. Specifically, the justification should detail how the newspaper article illustrates the theories and concepts introduced in the readings. Students must submit both a pdf file of the newspaper article as well as the justification 24 hours prior to the class meeting.
- **Erarbeitung, Präsentation und Diskussion eines Einzelthemas im Team (30%)** Students will be assigned to teams. Each team will be assigned a case study. The task is to analyze the given case and prepare a presentation of about 30 minutes to be delivered in class. The presentation should provide sufficient background information for the audience to understand the context, introduce the key actors and their motivation, describe the political dynamics of the situation, and explain the consequences of the actions taken. In addition, students are asked to evaluate how the theories discussed in this week's readings and in class apply to the case, explaining the similarities and pointing to potential differences. Lastly, students should outline two policy recommendations as to what they would have recommended the key actors to have done instead. Importantly, keep in mind that your colleagues (not the instructor) should be your target audience: I will evaluate your presentations inter alia according to how well they explain the case to class. In other words, do not tailor the presentation to me, but rather try to make sure everyone in class can follow and understand what you are presenting. The presentations will be held using slides that students

prepare in advance and which we will project for everyone to follow during the presentation. Slides have to be submitted at least 24 hours before the presentation.

- **Aktive Beteiligung an der Diskussionsarbeit (20%)** Each class will feature both an interactive lecture as well as an in-class simulation. Here, students will analyze the historical context, decisions that were taken, reasons for decisions, and their consequences. Students' active participation is expected.
- **Abschlussarbeit (30%)** Students will need to demonstrate their mastery of the material in the context of a final exam.

## Dates, Topics, and Readings

### 13.10.2021 — Introduction

(no readings)

### 20.10.2021 — Politics and Regulating Banks

Frances Rosenbluth and Ross Schaap. The domestic politics of banking regulation. *International Organization*, 57(02):307–336, April 2003. [pages: 307-317]

B. Mukherjee, V Yadav, and S Bejar. Electoral Particularism, Bank Concentration, and Capital Account Liberalization in Developing Democracies. 47(6):851–877, April 2014. [pages: 851-860]

### 27.10.2021 — Politics and Bailing out banks

Guillermo Rosas. Bagehot or bailout? An analysis of government responses to banking crises. *American Journal of Political Science*, 50(1):175–191, 2006. [pages: 175-182]

Jeffrey Chwieroth. Great expectations, financialization and bank bailouts in democracies. *Comparative Political Studies*, 00 2019. [pages: 1259-1272]

### 03.11.2021 — Politics and Regulating stock markets

Pablo M Pinto, Stephen Weymouth, and Peter Alexis Gourevitch. The politics of stock market development. *Review of International Political Economy*, 17(2):378–409, 2010. [pages: 378-388]

John R Bowman. Corporate Governance and Finance. In *Capitalisms Compared: Welfare, Work, and Business*. CQ Press, August 2013. [pages: 239-272]

### 10.11.2021 — Politics and the price of shares

David Leblang and Bumba Mukherjee. Government partisanship, elections, and the stock market: examining American and British stock returns, 1930–2000. *American Journal of Political Science*, 49(4):780–802, 2005. [780-783.798-800]

Amy Pond and Christina Zafeiridou. The Political Importance of Financial Performance. *American Journal of Political Science*, 64(1):152 – 168, 12 2019. [152-154, 157-160]

### 17.11.2021 — Politics and Currency crises

David H Bearce. A Political Explanation for Exchange-Rate Regime Gaps. *Journal of Politics*, pages 1–15, October 2013. [58-62]

Jeffrey Frieden. Invested Interests: The Politics of National Economic Policies in a World of Global Finance. *International Organization*, 45(4):425–451, 1991. [431-434]

### 24.11.2021 — Politics and Sovereign Debt

Jeromin Zettelmeyer and Federico Sturzenegger. The Economics of Sovereign Debt and Debt Crises: A Primer. July 2015. [pages: 31-38]

Kenneth A Schultz and Barry R Weingast. The Democratic Advantage: Institutional Foundations of Financial Power in International Competition. *International Organization*, 57(1):3–42, February 2003. [pages: 3-14]

### 01.12.2021 — Politics and Trade Finance

Kristen Hopewell. When market fundamentalism and industrial policy collide: the Tea Party and the US Export–Import Bank. *Review of International Political Economy*, 24(4):1–31, April 2017.

Jonas B Bunte, Geoffrey Gertz, and Alexandra O Zeitz. Cascading noncompliance: why the export credit regime is unraveling. *Review of International Political Economy*, pages 1–25, 2021.

### 15.12.2021 — Final Exam

(no readings)

## Course Policies

### What I expect from you

- Willingness to work: As a rule, one ECTS corresponds to three hours of scientific work per week (including lectures, laboratories, recitations, discussions, fieldwork, studies, etc.), averaged over the semester. In other words, students will have to invest time and effort, otherwise the learning experience and grades may not meet your expectations.
- Etiquette: You are expected to read the assigned readings before each class period. The lecture and activities will not present the contents of the readings again, but will build on it. Your active, informed and civil participation in discussion and class activities is expected.
- Obligations to other students: You will be assigned to a team of approximately 5 students who will work together throughout the semester. Each team will have the opportunity to agree on how the teamwork should happen. You are expected to work with your teammates in the manner that all team members agreed upon.

### What you can expect from the instructor

- I offer a learning environment that challenges you in order to provide opportunities for growth. I will be prepared to the best of my abilities.
- I encourage you to explore your own ideas in response to the assigned tasks. I will be open-minded in responding to your ideas and suggestions. I will offer constructive feedback.

- I am open to constructive feedback from you on my performance. If you have ideas or suggestions, please do not hesitate to discuss them with me. I am committed to make this the best possible classroom experience.

**Course Atmosphere** We are jointly responsible for maintaining a constructive learning environment in the classroom. Students whose behavior is disruptive either to me or to other students will be asked to refrain from such behavior or, in severe cases, to leave the classroom. Mutual respect is expected of everyone in the classroom, and personal attacks will not be tolerated. Please contact me if you have any concerns in this regard.

**Academic Misconduct** Students are expected to do their own work. Engagement in any form of Academic Dishonesty (plagiarism, use of unauthorized aids, consultation with other students, etc.) will have serious consequences for the course grade. In addition, additional sanctions from the university are to be expected. See §51, Paragraph 2, Items 31 and 32 Universitätsgesetz.

**Sexual Harassment** I do not tolerate sexual harassment, sexist behavior or bullying. The Hochschulrichtlinie (university guidelines) prohibits sexual harassment according to iSd §8 Bundes-Gleichbehandlungsgesetz (Federal Equal Treatment Act). This is a serious offense and I want to make clear that I will be an ally to anyone affected. In addition, I recommend the conflict and bullying advisor program at WU. If needed, you can use the services of a counselor through this program.<sup>1</sup> WU settles accounts with these counselors on a trust basis, that is, the counselor does not provide any data about the person seeking counseling to WU. Nonetheless, WU is paying for the first five counseling hours.

**Support for students with disabilities** It is important to me to ensure equal opportunities for students with and without disabilities and to pay special attention to the needs of students with disabilities. If necessary, you are strongly encouraged to contact me so as to ensure the best possible access to the course. It is important to me that everyone who would like to take part in this course is not prevented from doing. Please feel free to contact me about this. I also recommend the mentoring program BeAble. This program is aimed at students with physical disabilities, chronic illnesses, or a learning disability. Those affected are accompanied and supported by colleagues from the more advanced semesters.<sup>2</sup>

**Statement regarding diversity** I strongly believe that diversity is an asset rather than a liability. For one, in a globalized world you will be exposed to people who are different from you. Therefore, it is necessary to recognize that people who are different in almost all cases bring something valuable to the table: Experiences that you can learn from, insights that were not apparent to you, skills that you do not have, or knowledge that you can benefit from. It is my intention to create a learning environment in this class that allows everyone to share their unique strengths. This is not only my personal belief. After all, research shows that the best work is usually produced by groups that combine the different comparative advantages of their group members. I therefore emphasize that I will welcome anyone to my class, regardless of your sexual orientation, religious observances, political orientation, physical characteristics, cultural background, nationality, or any other characteristic. I recognize that I myself am not perfect, but I promise you to make every effort. If you have any concerns with respect to your acceptance in the classroom I strongly encourage you to talk with me.

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<sup>1</sup>More information here: <https://www.wu.ac.at/universitaet/organisation/interessensvertretungen/arbeitskreis-fuer-gleichbehandlungsfragen/harassment>

<sup>2</sup>More information available here <https://www.wu.ac.at/studierende/mein-studium/bachelorguide/foerderprogramme/beable-ungehindert-studieren/>