The European Financial Crisis Course

SYLLABUS AND SCHEDULE

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Sunday, January 8 @ 6pm to Friday, January 13 @ 2pm
Hotel Gran Melia Fenix
Calle de Hermosilla, 2

Objective: The objective of the course is to provide students a better understanding of the European financial crisis. Starting with a background of the European Union and the Euro, the course continues with an overview of the causes of the crisis and finishes with the responses and potential policy alternatives.

The class takes place in Madrid. Madrid has been chosen specifically to bring students closer to the crisis and make it easier for European-based guest experts to speak to the class.

Finish the readings before arriving in Madrid, so you can enjoy Madrid.

The readings are pan-European and the professor will discuss Europe more holistically. However, most (if not all) of the experts will focus on Spain. Focusing on one country, Spain, allows the class to go into some depth into specific issues, including management, public policy, economics, labor law, and banking.

Students are broken up into groups focused on European countries for certain projects (see groupings below). The primary reason for the groups is for people to develop a network. The teams are Monday, Greece; Tuesday, Germany; Wednesday, Italy; and Thursday, Ireland.

The Class: The class includes both full-time MBA and part-time Executive MBA students. Typically, it is around 50 students. The class benefits from the mixture of various experiences and backgrounds. Typically, students’ professional backgrounds have ranged from banking/consulting to technology/brand management.
Typically, students have 3-9 years of work experience. Typically, the majority of the students are from the USA, but there are students from Europe (including up to 10% from Spain) and Asia. Most have not been to Spain recently or have been only for a short vacation.

**The Speakers:** What makes the class unique is the amount and level of high quality speakers. Typically, each day has a particular subject focus. Typically, the first day there are speakers that can provide some background and context on Spain, including a reporter and economist. The second day the speakers are advisors, including lawyers, consultants and bankers. The third day the speakers who run businesses, including a bull / pig rancher to technology start-up founder. The fourth day, the speakers are investors, including hedge fund and private equity investors. The last day we have a game show quiz midterm and then go on a tour of Santiago Bernabéu Stadium.

Most of the speakers are close, personal friends of the professor, who lived in Madrid with his family in 2013. The speakers volunteer their time. The speakers’ comments are “off-the-record” and confidential. Students may not tape record any portion of the class.

**Requirements:** There will be relatively short reading assignments that are required. Students are provided the materials and assignments in advance. It is highly recommended that students read them in advance. The city of Madrid (the sights, the people, the culture, etc.) is considered a significant text in itself. Students will be required to really see and experience Madrid.

**Grades:**

33% Class Participation (attendance, asking questions, group presentation, captain for group country presentation gets extra credit)
33% Midterm (individual questions, group performance in the game show quiz on Friday, captain for mid-term group gets extra credit)
33% Final 3 Page Memo (include specific references to speakers and readings)

**Attendance:** There will be “pop” attendances taken throughout the course. For each attendance a student misses, the student’s grade will be impacted. There are no sign in sheets; you must register with the TA going into the room.

**Country/Group Presentation:** You should read the designated materials in the case book and do your own independent research and present to the class 1. What caused the crisis in your country (e.g. combination of housing bubble, overleveraged banks, regulatory issues, labor/productivity/competitive imbalance, corruption, unproductive use of resources/capital)
2. What is unique about your country (e.g. no natural resources, large savings/deposits, little exports) 3. What has been done (e.g. any bailouts, regulatory changes, stress tests), 4. What is the current situation (e.g. debt, unemployment, trade balance, GDP growth expectations, political situation) and 5. Top 3 things to see in the country as a tourist (and an interesting fact/story about it). You should turn in your notes/presentation. You don’t have to have slides or a formal paper (but you can). This is casual. One or two people can present for the group to the entire class. It should be 15-20 minutes, with 5-10 minutes for Q&A.

Midterm:

For the midterm, each student must submit his/her own individual 12 questions and answers for a game show quiz Q&A to be held on Friday. The Q&A should be emailed to the teaching assistant (not the professor). At least four questions must be from the readings (reference the specific reading), at least four questions must be from the speakers (reference the specific speaker), and at least two questions must be about Madrid (a tourist knowledge fact). The Q&A must be professional. The questions should be long enough to demonstrate the knowledge of a key concept that should have been learned in class. The questions should reflect basic things that one should get out of the class – not trick questions. The question should clearly lead to an obvious answer. The answer should be one or two words. For example, a bad question would be “Define XYZ.” The answer would be too open ended and the question doesn’t show why the word or definition is important. A better question would be stating the definition in the question plus why it is important or relevant to be a question and then the answer is the word. For example, “this important factor to measure for a country is defined as xyz and for Spain it has been increasing/decreasing from x to y which indicates xyz and should be monitored because of xyz. Name this factor.” True or False or multiple choice questions are not allowed. The question should clearly indicate a main theme of the class – something you thing would be fair for the professor to have on a test where the answer would be easy to evaluate because it was one or two words.

The individual Q&A should be sent to the TA only (not the professor).

Then each student will be a member of a country group. The country group must select the group’s 12 questions and answers, the best one from each student in the group and there should not be any duplicates. The group captain has final decision. Each question should have which student wrote it. At least four questions must be from the readings (reference the reading), at least four questions must be from the speakers (reference the speaker), and at least two questions must be about Madrid (a tourist knowledge fact). For a bonus, the group may submit a 13th question, one funny question about the professor / a question poking fun at the professor.
group captain(s) (maximum two people) will stand in front of the class to ask the other country group’s the questions for the quiz.

In addition to the questions and answers (attach to the group email submission), the teams must submit at least three team photos (all must be present to count) at three of the top 50 sights mentioned in Madrid: Top 50 Places to Visit and Interesting Stories That Bring Them to Life by Isabella and Tatiana Mandis. A team photo at El Lando Restaurant gets extra credit.

The groups then submit the questions and the team photos to the professor by email sgm2130@columbia.edu on Thursday night before 8pm (before they go out), and those questions are used for the game on Friday. Again, the individual Q&A should be sent to the TA only (not the professor).

The Q&A (individual and group) and final must be submitted in a word document with page numbers and name(s) at the top.

**Final:**
The Final 3 Page Memo will be on a topic / question selected by the professor. Typically, 3-6 different choices / questions are provided. The keys for the paper are 1. Citing specific speakers (mention their names specifically with quotes, the quotes don’t need to be exact) and specific readings (cite the work/author, quote the statement), and 2. Providing evidence (these are facts and charts from readings, speakers or your own research) to support your idea. Typically, the two keys need to be thoughtfully incorporated together and balanced. Headlines to organize your paper often help improve it. Please send in a word document, with page numbers and with your name on top. Send to sgm2130@columbia.edu by two weeks plus the weekend from the last class (e.g. if class finishes on Friday, January 13th, then it is due 12/noon, Monday, January 30th).

Questions from Last Year. If you have another idea or suggestion, please email professor.

1. What caused the financial crisis in {Europe, Spain, pick a European country}?
   Also give historical context.

2. What were the flaws from the beginning? What has been addressed - and not addressed? Has enough been done and fast enough? Why/why not. What would you recommend?

3. What is next? Getting beyond the over leverage/debt - what does [ECB, Bank of Spain, Government of Spain, pick an entity] have to focus on? What should [ECB, Bank of Spain, Government of Spain, pick an entity] be concerned with going forward?

4. Stock markets and debt prices are up, is the market telling us that we turned the corner? Have we? Giving credit to where credit is due? Has there been enough changes/measures to justify?

5. What should the real equity return expectations in {Europe, Spain, pick a European country} be and why? Relative to what other asset classes/other countries.

6. Do you think {Greece, Germany, pick a European country} should exit the Euro? Why? Who does it hurt/help? What would happen to the Euro if it did? Should the Euro exist?
**Philosophy:** It is a timely course that focuses on key, selected, memorable messages/lessons learned and an emphasis on what can help you in your career. Also, the student should feel that they have a much better understanding of Madrid and Spain – not just business aspect, but the culture and life aspect. The professor works for you/the student – if you have constructive feedback or questions, then please provide it real time or ask.

**Office Hours/Q&A:** The professor will hosts drinks for a Q&A with each group Monday–Thursday evening immediately after class at the hotel. Attendance is optional. Per policy, students must pay for their own drinks. It is an opportunity to ask questions about the class, careers, or life. Also, feel free to email me. The professor typically responds within 24 hours.

**Housing:** Students are responsible for securing their own accommodations and may stay where they wish. A block of rooms is reserved at the Hotel Gran Melia Fenix where the class sessions will take place; please book by December 7th to take advantage of the block at this link. http://meetings.melia.com/en/COLUMBIABUSINESSSCHOOL.html Rates are Double/twin room for single use incl. breakfast 8-14 January € 198.00 per room per night. Double/twin room incl. breakfast 8-14 January € 214.50 per room per night. If you have questions, please contact Jennifer Tromba Morisco (jt2121@gsb.columbia.edu).

**Dining and logistics:** The course program fee provides two dinners, one lunch, coffee/tea and a light breakfast snack daily; transportation and entry to the Real Madrid Stadium visit. Typically, we take a 1–1.5 hour lunch break. The earliest dinner reservation in Madrid is 9:00 p.m. There are so many amazing places to eat in Madrid.

All of the professor’s friends in Madrid know that the professor often eat at the traditional Spanish food restaurant *El Lando* at Plaza Gabriel Miró. The professor’s next favorite place to eat is the trendy *Ten Con Ten* (*trendy, upscale – and has a bar area*). You will need to make reservations in advance for both. The professor's favorite tapas / bars are Le Cabrera and Lateral (there are a few). For Paella, Casa Benigna and Luzi Bombón. For food halls, Mercado de San Miguel and Platea. Two other trendy and upscale places (with bar areas): Restaurante Amazonico and Ultramarinos Quintin.

**Dress:** Most speakers will be in suits or business casual. Please dress respectively.

**Country Groups:** Students are broken into four groups by last name. The professor hopes the teams have some “country spirit” (eg flags, country costumes, etc. always help) If your last name starts with the following letters, you are in the following country groups:

- **Greece:** A-C
- **Germany:** D-L
Ireland: M-R
Italy: S-Z

**Technology:** When guest speakers are speaking do not have your laptops open – even to take notes. The typing can be distracting. If you need to check a mobile device, please do so quickly and discretely (under the table).

**Schedule:** Class will start at 6pm on Sunday night at the hotel and finish before 9pm, dinner. This will mean that people traveling from NYC will probably have to leave at the latest on Saturday night to arrive in Madrid on Sunday morning. The reason the class is starting on Sunday is student feedback was that more up front preparation was needed before listening to the speakers.

Classes are typically 9am to 6pm. Sometimes, the classes start later to accommodate the lateness of Madrid evenings and then we corresponding have class later.

Some students need to leave to catch flights on Friday afternoon. Typically we have the midterm in the mid/late morning before lunch on Friday. It is fun-filled learning, casual and open book. Then we have the tour. If you will miss the tour and/or need to leave early, then just email the TA and professor in advance. If you need to miss the midterm, then please email the professor in advance to arrange a time to discuss it.

Some students have to miss some time of class for a meeting in Madrid or a conference call for work. Typically, the professor is sympathetic to one request, just email the TA and professor in advance.

**Casebooks:** The Casebooks should be up electronically on canvas. The people in charge of this are Lisa Malone (lm2139@gsb.columbia.edu) and Jennifer Tromba Morisco (jt2121@gsb.columbia.edu).

**Readings:**
The most important readings are in order:

Paradigm Lost: The Euro in Crisis by the Carnegie Endowment
http://carnegieendowment.org/files/Paradigm_Lost2.pdf
http://carnegieendowment.org/2010/06/02/paradigm-lost-euro-in-crisis

Beyond austerity: A path to economic growth and renewal in Europe
http://www.mckinsey.com/insights/europe/beyond_austerity_a_path_to_growth_in_europe

European Growth and Renewal: The Path from Crisis to Recovery by McKinsey Global Institute
http://www.mckinsey.com/insights/europe/european_growth_and_renewal_path_to_recovery

A Window of Opportunity for Europe by McKinsey Global Institute
http://www.mckinsey.com/insights/europe/a_window_of_opportunity_for_europe

Speech by Benoît Cœuré, Member of the Executive Board of the ECB
The Making of a Crisis

1. Confidence in the prospects for growth and stability of the economies of Greece, Ireland, Italy, Portugal, and Spain (GIIPS) surged when the euro was introduced, causing their interest rates to decline to those of Europe's more stable members.

2. Improved confidence and lower interest rates drove up domestic demand in the GIIPS and investors and consumers were emboldened to increase spending and run up debts, often owed abroad as foreign capital flowed in.

3. Growth accelerated and the prices of domestic activities (i.e., those least exposed to international competition, such as housing) rose relative to the price of exportable or importable products, attracting investment into the less productive non-tradable sectors and away from exports and industries competing with imports.

4. Meanwhile, exports rose sharply as a share of GDP in Germany, the Netherlands, and other historically stable countries in the European core. Growing demand in the GIIPS enabled these core countries to increase exports. The adoption of a common currency whose value was based on broader European competitiveness trends that made it lower than the deutschmark or guilder might have been, made their exported goods more affordable.

5. The domestic demand boom in the GIIPS induced rapid wage growth that outpaced productivity, increasing unit labor costs and eroding external competitiveness further. This trend was reinforced by especially rigid labor markets in most of the GIIPS. The emergence of China, as well as currency depreciation and rapid labor productivity growth in the export sectors of the United States and Japan, added to the competitiveness problems of the GIIPS.

6. The single European monetary policy was too loose for the rapidly growing GIIPS (Spain, Greece, and Ireland) and too tight for Germany, whose domestic demand and wages grew very slowly compared to the European average. This reinforced the loss of competitiveness in the GIIPS.

7. Lower borrowing costs and the expansion of domestic demand boosted tax revenues in the GIIPS. Instead of recognizing this as temporary revenue and saving the windfall gains for when growth slowed, GIIPS governments significantly increased spending. Blatant fiscal mismanagement added to the problems in Greece.

8. The financial crisis in 2008 brought an abrupt end to the post-euro growth model in the GIIPS. As they plunged into recession and tax revenues collapsed, government spending was revealed to be unsustainable and their loss of competitiveness dimmed hopes of turning to foreign demand for recovery. The GIIPS are left with high public and private debts and weak long-term growth prospects, unless they make difficult adjustments to cut deficits and restore competitiveness.
**Please note:**
1. No recording devices. All comments made by the speakers are “off-the-record” and should not be discussed outside the classroom.
2. Most speakers will be in suits or business casual. Please dress respectively.
3. When guest speakers are speaking do not have your laptops open – even to take notes. The typing can be distracting. If you need to check a mobile device, please do so quickly and discretely.

**Sunday, January 8**
Theme: Introduction to EU

6:00pm  Steven Mandis
-9:00pm Welcoming/Housekeeping

   Read: Casebook: pages 1-25 and 152-158 for background;
         look at maps/tables on pages 31-32; 86, 153-154, 222

**Monday, January 9**
Theme: What is going on over here?

9:30am  Steven Mandis
-10:30am Introduction to Spain

   Read: Can Spain Overcome the Aegean Flu? from Paradigm Lost: The Euro in Crisis by
         the Carnegie Endowment

10:45am-  Tobias Buck, Financial Times
11:15am

11:30pm  Borja Arteaga, PJT Partners – overview – what caused the crisis, where are we
-12:30pm

12:45pm  Ignacio de la Torre, Economist Arcano
-1:45pm

2:00pm-Lunch
3:15pm
3:30pm-Eva Ortega c/o Oscar Arce, Head of the Macroeconomic Analysis and Forecasting Division for Bank of Spain

4:30pm- Carlos Fernández Iñigo, Informa – SME research
5:45pm

6:00pm-Greek Team Presents

7:00pm  
Class Read: Why Greece Has to Restructure Its Debts from Paradigm Lost: The Euro in Crisis by the Carnegie Endowment  PLUS A Dire Warning From Latvia and Argentina PLUS Lessons from Russia’s Crisis

7:00pm  Mandis drinks with Greek Team

9:00pm  In case you don’t want to run into the professor, Mandis with speakers at El Lando for dinner.

Tuesday, January 10th
Theme: Advisors

9:00am- Mandis
10:00am German Team Presents:  
Class Read: Germany. Europe’s Pride or Europe’s Problem from Paradigm Lost: The Euro in Crisis by the Carnegie Endowment

10:00am- Beltran Paredes, Rothschild Restructuring practice in Iberia
11:00am

11:15am- Paolo de Pascale c/o Ibon Garcia, Oliver Wyman – Stress Tests, CA Exercise with ECB -12:15pm
12:45pm- Beatriz del Rey, Herbert Smith Freehills – lawyer advising PE firms, SAREB
1:45pm

2:00pm-Lunch
3:15pm

3:30pm-Irish Team Presents
4:30pm  
Class Read: Ireland: From Bubble to Broke from Paradigm Lost: The Euro in Crisis by the Carnegie Endowment

4:45pm-Konstantin Sajonia-Coburgo-Gotha, Managing Director Barclays Investment Banking
5:45pm

6:00pm-Steven Mandis

7:00pm  Mandis drinks with German Team

Wednesday, January 11th
Theme: Creators

9:00am- Isabel Moya, Pérez-Llorca, -- labor lawyer
10:00am
Carlos Martinez de Albornoz, Director General of Real Madrid Club de Futbol
11:00

11:15am
Juan Pedro Domecq, Domecq – Fighting bull breeding (Veragua) and Iberico Bellota
12:15pm
Ham

12:45pm
Alex Puregger, Fon – Global dual access wireless networks
2:00pm

2:00pm-Lunch
3:00pm

3:15pm-Lorenzo Martinez de Albornoz, GPF Capital – SMEs in Spain and starting a fund
4:30

4:45pm-Alexis Bonte, eRepublic – tech game company
5:45pm

7:00pm
Mandis drinks with Irish Team

9:00pm
In case you don’t want to run into the professor, Mandis with speakers at El Lando for dinner at 9pm.

Thursday, January 12th
Theme: Investors

9:00am- Steven Mandis
10:30am
Italian Team Presents:
Class Read: Is Italy the Next Greece from Paradigm Lost: The Euro in Crisis by the Carnegie Endowment

10:30am- Pelayo Primo de Rivera, Kefren Capital - real estate
11:30am

11:45pm Jose Nestola, Copernicus or Isidro Fernandez, Capula Global – London-based distressed 12:45pm debt HF investor

1:00pm-Private Equity Investor from Apollo
2:00pm

2:00pm-Lunch
3:00pm

3:00pm-Isabel Serra, Cygnus Asset Management – Madrid-based hedge fund
4:00pm

4:00pm-Fabio Lopez, Equilibria Capital- Swiss-based HF
5:00pm

5:00pm-Steven Mandis – Discussion of Midterm and Final
6:30pm
6:30pm   Mandis drinks with Italian Team

Late night   In case you don’t want to run into the professor, Mandis typically goes to Le Cabrera on Thursday night.

**Mid Term Questions and Pictures from Teams are Due at 8pm (before dinner)**
See Syllabus for instructions including Team Photos

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**Friday, January 13th**
Theme: Midterm and Real Madrid

9:00am- 11:00am   Time for team projects / Review for Midterm

11:00am- 12:00pm   Midterm Quiz Show

12:00pm- 2:00pm   Meet at Santigo Bernabéu Stadium

2pm-5pm   Steven Mandis
Q&A

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**Final**
Final is due at noon, Monday, January 30th

*** Make sure you use facts from speakers and readings to support statements

Questions

1. What caused the financial crisis in [Europe, Spain, pick a European country]?
   Also give historical context.

2. What were the flaws from the beginning? What has been addressed - and not addressed? Has enough been done and fast enough? Why/why not. What would you recommend?

3. What is next? Getting beyond the over leverage/debt - what does [ECB, Bank of Spain, Government of Spain, pick an entity] have to focus on? What should [ECB, Bank of Spain, Government of Spain, pick an entity] be concerned with going forward?

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