POLS/ECON 409 · *Politics of the Financial Crisis, Part 1*

ideology	spatial model	capital injection
interests	ideal point	TARP, TALF
institutions	pivotal voter	QE1, QE2, QE∞
roll-call votes	veto player	mortgage restructuring
political bubble	regulatory capture	HAMP
Dodd-Frank	Consumer Financial Protection Bureau (CFPB)	

1. What do McCarty, Poole, and Rosenthal mean by the terms *ideology*, *interests*, and *institutions*? Give examples.

2. What do McCarty, Poole, and Rosenthal mean when they talk about "political bubbles"? How do ideology, interests, and institutions each potentially explain the failure to prevent the 2008 U.S. financial crisis?

3. Why are ideology and interests difficult to disentangle? Can you think of some strategies for distinguishing ideological motivations from self-interested ones?

4. How do McCarty, Poole, and Rosenthal measure ideology? Are there any problems with their operationalization of this concept? Is consistent political behavior necessarily ideological? Are some kinds of consistency more clearly ideological than others?

5. How has partisan polarization shifted over the last century? How does this relate to changes in economic inequality? What barriers does this create for good economic policy in general and financial regulation in particular? (You may focus on the period up to the mid-2010s, but you are also welcome to extend your analysis to the present.)

6. McCarty, Poole, and Rosenthal describe a variety of legal ways in which the financial sector used political levers to advance its interests. What are these means? How did their use vary over time?

7. How did Congressional rules complicate efforts to reform the financial industry? Why did these barriers become more severe?

8. The "revolving door" refers to the circulation of officials through paid positions in regulated sectors, on one hand, and in regulatory agencies or legislatures, on the other. What are some examples of the revolving door in high finance? Does the revolving door affect policy? How could you tell?

9. Economists often seek to characterize the equilibrium state of a market or economy through the meeting of supply and demand, while holding public policy constant. This week's readings focus on the possibility that legislatures and regulators might change a market radically by passing new laws and regulations (or repealing old ones), at the behest of either firms or consumers. This implies a "political economic equilibrium" that adds in the preferences of political actors and the rules of the political game. How might replacing "economic equilibrium" with "political economic equilibirum" change the way we talk about economic policy?

10. What novel measures to staunch the financial crisis did the Treasury and Fed pursue starting in September 2008? How did these measures mutate as concerns about solvency mounted?

11. The federal government ended up a major equity investor in large banks but declined to demand voting rights for its shares. How might the course of the financial crisis and recovery been different if the Treasury ended up in control of significant voting shares in major banks? What might McCarty, Poole, and Rosenthal say?

12. Eichengreen recounts the history of QE1, QE2, and "QE∞." How has the outcome of these programs differed from the hopes of their authors and the fears of their critics? Why is it so hard to assess these programs? Do you think the Fed made the right moves? What would you have done differently?

13. Eichengreen criticizes financial reforms passed by Obama and the post-crisis Congress as weak compared to those of FDR and the New Deal Democrats. In what ways did post-2008 reforms fall short, and why?

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