



Session 8:
**Navigating the Increasingly
Treachurous Global Market**

I.463 Globalization of E&C
Fall 2009

Terminology

- Derivatives
- Systemic Risk
- “Too Large To Fail”
- Securitization
- Credit Default Swaps
- Counter Party Risk
- Disintermediation
- Concessions
- Clawbacks
- Repos
- SIVs (Structured or Special Investment Vehicles)
- Moral Hazard



Are financial meltdowns inevitable?

- Can we, and should we, anticipate them?
- What actions can, or should, a major
 - architecture,
 - engineering, or
 - construction management firm take?



What is the impact of such a meltdown on the nation states?

- Will their power now increase?
- Will there be increased regulation?
- Will the position of the private sector in various fields, including AEC, decline?
- If so, would it be permanent or only another swing of the pendulum?



• How does the ability of the U.S. or the EU to react to a financial crisis differ from that of

- China,

- Canada,

- Mexico, or

- Thailand?

JP Morgan and Bear Stearns

- In your opinion, was Bear Stearns a true rival to Merrill Lynch, Goldman Sachs, Morgan Stanley and Lehman Brothers? Was there a “big five,” or only a “big four?”
- How could a company like Bear Stearns, that had the reputation of being street smart and risk averse collapse so quickly?
- What do you think Bear Stearns, and to a lesser extent, Lehman and Merrill Lynch were really specialized in?
- What was the best strategy for an investment banking house to follow in the mortgage market?
- How did leverage affect JP Morgan, Bear Stearns and others?
- In your view, was Lehman “too large to fail?”
- How would you compare the quality of Bear Sterns and JP Morgans’ management?

JP Morgan and Bear Stearns

- What was the difference in Morgan's and Bear Sterns strategies?
- Did Lehman and Bear Stearns' failure to support the earlier LTCM bailout affect Secretary Paulson or the Treasury's bailout decisions or strategies?
- Why did JP Morgan have to raise their purchase price for Bear Stearns while Lehman Brothers collapsed with no purchaser?
- With the benefit of 20/20 hindsight, was the collapse of Lehman Brothers inevitable, or could it have been stopped?
- What did you think of the significance of the leverage ratios? (Pg. 29 of the case)
- Was JP Morgan's success due to luck or good planning?
- Are there any lessons to be learned about the need for additional regulations from the JP Morgan case or any outside readings you've done on the recent meltdown?
- How is the financial crisis likely to affect the AEC community?

Mexican Tollroads

- What was ICA's early business model?
- What led it to changes?
- What are the risks in Mexican BOTs?
- Why (p. 7) do you suppose most Concessionaires were typically affiliated with a Mexican construction firm?"
- What strategy would you adopt in preparing a bid?
- What were the benefits of Toll Roads? To Whom? How would you measure it?
- What are the implications and risks of foreign financing for BOTs?
- If you were ICA's Vice President for Planning, what would be your plans and recommendations?

ENRON

- India's concerns in the power field?
- What actions did the government take?
- What were the problems?
- Why was the off-take price from ENRON so high?
- What was the World Bank's view of DPC?

Friedman - “The Lexus and the Olive Tree”²

- What does Friedman mean by “*Winner takes all*”-Is it fair and equitable?
- Have the growing income inequities encouraged a counter-reaction?
- Will the world homogenize?
- What can turtles do?
- What will the turtles do?
- Is Grameen Bank part of the solution?
- Did increased financial transparency help or hurt Mexico?
- What does Friedman mean by “Cultural and Environmental Filters?”
- Is globalization a threat to the environment?
- Do you feel that globalism will be the dominant international force in the period 2010-2020?

² Not the least of the losers in the recent meltdown were the in-laws of Thomas Friedman, so often mentioned in his works, who owned the second largest shopping center group in America that went bankrupt.

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