Session 8: Navigating the Increasingly Treacherous Global Market

1.463 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 Morgan’s 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 effect 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”

- 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.
1.463J The Impact of Globalization on the Built Environment
Fall 2009

For information about citing these materials or our Terms of Use, visit: http://ocw.mit.edu/terms.