Role Play – The Financial Crisis

Introduction:

This role play divides groups into different roles/actors and given their roles. Three “days” will pass and the groups and actors will need to decide how to act based on their characteristics, rules and personal morals. Each role is limited by their circumstances. At the beginning of each “day” the groups are given their scenario on a piece of paper. They can choose to act, discuss with other groups or react alone. At the end of each “day” groups will report to the whole group what they did, why they did it and what rules/values made them choose their actions.

Who are the different actors?

1. National Government
2. Financial Institution
3. Local Bank
4. Credit Rating Agency
5. Civil society
6. Economic Scientists and Advisors

Roles:

1. National Government – You are an economically liberal government with a limited budget, which means that careful spending is required. The country, Greedland, is already highly indebted however, you have a very high GDP. If you provide government bail-outs for the Bank or Financial Institution you will have to cut on public spending.

2. Financial Institution - You represent Greedy Brothers, a global financial services firm, the fourth largest investment bank in the Greedland (behind Scrooge McDuck, , and Ebenezer Ltd.), doing business in investment banking, equity and fixed-income sales and trading (especially Greedland Treasury securities), research, investment management, private equity, and private banking. You pay high salaries to your employees. Your link with the Local Bank is that you provide them with financial liquidity.

3. Local Bank – You offer services to Civil Society who are not wealthy enough to be involved in private banking. Most of the people would come to you in order to get mortgages for their properties. You are very closely related to the Financial Institution as they secure your transactions and lend you money for your operations.

4. Credit Rating Agency - A credit rating agency is a company that assigns credit ratings for issuers of certain types of debt obligations as well as the debt instruments themselves. In most cases, the issuers of securities are companies, special purpose entities, state and local governments, non-profit organizations, or national governments issuing debt-like securities (i.e., bonds) that can be traded on a secondary market. A credit rating for an issuer takes into consideration the issuer's credit worthiness (i.e., its ability to pay back a loan), and affects the interest rate applied to the particular security being issued.

5. Civil Society – You represent the home-owners, renters, mortgage holders, etc. You are a teacher, have a wife who is a nurse, have 3 children living in the suburbs in a home that you have just bought because the Local Bank has given you a very good price on a mortgage.

6. Economic Scientists and Advisors – You are working at a very esteemed university and at the same time you perform different commitments for the private sector (for example: you serve as an advisor to a board of a Financial Institution or you help to give the credit ratings with the Credit Rating Agency). Sometimes you may be approached by the representatives of the private sector or National Government to provide analyses or forecasts of economic situation. One member of your group is has published a paper about the future causes of the financial crisis (a realistic uncovering the high risks of the system).

Day 1: Leading up to the crash

1. National Government – You can see that the financial market is growing every day; the "growth" especially in housing is substantial. People are buying goods and borrowing money extensively. Do you think this is good for your country? Is it risky? You can ask the economic scientists for their predictions and advice. Are there any restrictions you need to make for the nation?

2. Financial Institution – You know the crash is on the way – how do you deal with these nerves? Do you feel you need to warn anybody (such as the National Government or your Bank clients)? Do you need to ask anybody for help?

3. Local Bank – You have lent out all your money and you know that if you don't have enough money your ratings will be decreased. Who do you ask for help?

4. Credit Rating Agency – You know that the liquidity of the Financial Institution is poor and their rating should be downgraded substantially, however they oppose that fact. What do you do?

5. Civil Society – Your bank has just announced that the interest rate of your mortgage loan for your house has been raised of 150%. Are you afraid? Do you feel guilty for taking such a risky the loan? Do you ask for another mortgage or a bigger loan to help support yourself?

6. Economic Scientists and Advisors – The government is going to ask you for advice and to forecast "growth". The financial market actors (that you are closely related to) want to pay you to publish analysis' about the "stability" of the situation. What do you say?

Day 2: The Crash

1. National Government – You want to bail out the banks and the Financial Institution, because they are closely linked to your government.

2. Financial Institution – How do you continue? Are you going to announce bankruptcy or not? Are you going to pay salaries/bonuses to your staff? How much? What do you tell your clients?

3. Local Bank – Are you going to announce bankruptcy to the public and your clients? Are you going to ask for a bailout? From who, the Financial Institutions that you have been doing business with or the National Government? What do you tell your clients?

4. Credit Rating Agency – How do you respond to the crash, when it is visible that you have not been granting the correct rates to both the banks and governments?

5. Civil Society – You have not been able to pay your loan for a couple of months. Now the bank wants to take your property, which is the only thing you own. You are already working extra hours but your salary still does not suffice.

6. Economic Scientists and Advisors – What is your response to the crash? How can you provide advice now?

Day 3: The Recession

1. National Government – If you have bailed out the banks yesterday, you are no longer able to pay social revenues to your people and institutions, people don't have money, are not spending and the business, in general, is going down. Your whole economy is sinking. What do you do? Are you going to enforce any restrictions on the financial market?

2. Financial Institution – You are still paying your people high salaries and bonuses, this information leaks to the media and causes massive protests.

3. Local Bank – Your position has change immensely. The Financial Institution does not support you anymore and your customers are much poorer than they used to be. Your speculative potential has been drastically decreased. You are looking for new possibilities to regain trust and find new customers.

4. Credit Rating Agency – Your reputation is not as strong as it used to be before the crisis. You are still an important actor, however society does not trust you. All the decisions you take are widely discussed by the media.
5. Civil Society – You still work excessively and have moved to a rented flat. Your standard of life has decreased, you cannot afford to pay for your children's education and have no money left for holidays.

6. Economic Scientists and Advisors – Your position has been weakened. Neither banks nor governments ask you for analyses. Currently, all your papers are being judged as being full of prejudices and nobody wants to publish them. Your university is facing serious financial obstacles since many sponsors withdrew their support.