Research Project

by Nihal Shah

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Works Cited

Cunningham, Lawrence. "Too Big to Fail: Moral Hazard in Auditing and the Need to Restructure the Industry before It Unravels." *Columbia Law Review* 106. No. 7 (2006): 1698-1748. Web. 19 Oct. 2014.

Mishkin, Frederic S. 2006. "How Big a Problem is Too Big to Fail? A Review of Gary Stern and Ron Feldman's *Too Big to Fail: The Hazards of Bank Bailouts*." *Journal of Economic Literature*, 44(4): 988-1004. Web. 17 Oct. 2014.

Stern, Gary H., and Ron J. Feldman. *Too Big to Fail: The Hazards of Bank Bailouts*. Washington, D.C.: Brookings Institution, 2004. Print.

Wall, Larry. "Too Big to Fail after FDICIA." *Economic Review* 95.0732-1813 (2010): 1-16. Print.

Rhetorical Précis

In his article "Too Big To Fail: Moral Hazard in Auditing and the Need to Restructure the Industry Before it Unravels" (2006), Lawrence A. Cunningham argues that a different industry for auditing needs to be created so that when banks fail, they can be allowed to leave the industry without having a huge financial impact on the economy. Cunningham supports his claims by explaining the concept of "Too Big to Fail" and showing how it negatively affects the economy. His purpose is to show the reader that auditing needs to be restructured immediately in order to solve the "moral hazard" problem and promote economic growth. It seems like his audience is mainly adults with some knowledge of the Too Big to Fail problem because he writes in a systematic and logical way and he uses terms that people would not understand, unless they had some background knowledge of his topic.

In his essay "How Big a Problem is Too Big To Fail? A Review of Gary Stern and Ron Feldman's *Too Big To Fail: The Hazards of Bank Bailouts*" (2006), Frederic S. Mishkin argues that Gary Stern and Ron Feldman "overstate the importance of the too-big-to-fail problem and do not give enough credit to the FDICIA legislation of 1991." Mishkin supports these claims by picking out specific quotes from Stern and Feldman's book and showing facts and statistics that disproves Stern and Feldman's claims. His purpose is to review the severity of the Too Big to Fail problem in order to decide whether Stern and Feldman's analysis of Too Big to Fail is accurate or not. The relationship Mishkin establishes with the audience is one where he is calm and simply states his opinion of Stern and Feldman's review of Too Big to Fail.

In their book "Too Big to Fail: The Hazards of Bank Bailouts" (2004), Gary Stern and Ron Feldman argue that Too Big to Fail needs to be eliminated and how it should be done. They support their claims by explaining the dangers of bailing out banks and proposing a way to eliminate the concept of Too Big to Fail. Their purpose is to inform readers about the Too Big to Fail problem and provide a meaningful solution. Their intended audience seems to be anyone interested in the Too Big to Fail topic, because it is easy to read and understand and does not require any background knowledge.

In his article "Too Big To Fail After the FDICIA" (2010), Larry D. Wall argues that Too Big to Fail has not been entirely eliminated even after the FDICIA was passed, though the FDICIA did reduce the likelihood of banks failing. Wall proves his arguments by showing statistics of how frequently banks failed in the past compared to how much banks have failed after the FDICIA. His purpose is to share his analysis of the current Too Big to Fail situation with the reader, and prove that more work needs to be done in order to completely eliminate the problem. His audience seems to be people with jobs in economics, though it could include adults with little background in economics because key terms are explained in a simple manner, so that anyone can understand his argument.

Ethos, Pathos, and Logos Evaluations

Cunningham, Lawrence. "Too Big to Fail: Moral Hazard in Auditing and the Need to Restructure the Industry before It Unravels." *Columbia Law Review* 106.No. 7 (2006): 1698-1748. Print.

1. **Ethos**: Ethos is present right in the beginning of the article, where the author states his qualifications: "Professor of Law & Business and Associate Dean for Academic Affairs, Boston College Law School." This establishes credibility for the author, and shows that he is qualified to talk about his subject.
2. **Pathos**: Pathos is used when the author discusses the fact that "the government decided in 2005 to avoid indicting KMPG for crimes it admitted committing." This appeals to pathos because the reader may feel angry after reading that KMPG was not punished for breaking the law. Therefore, the reader will be more willing to accept the author's argument that auditing needs to be restructured, since banks are currently getting away with illegal activities.
3. **Logos**: The entire argument of this article is based on logos. It states the problem in auditing because of "moral hazard" and so logically, the solution would be to create a new system. This article also uses many facts to support its claims, which is the use of logos.

Stern, Gary H., and Ron J. Feldman. *Too Big to Fail the Hazards of Bank Bailouts*. Washington, D.C.: Brookings Institution, 2004. Print.

1. **Ethos**: Gary Stern was the chief executive of the Federal Reserve Bank of Minneapolis, and Ron Feldman is the vice president of the Federal Reserve Bank of Minneapolis, so both of them are qualified to speak about this issue. It seems like their motive for writing this book is to warn people of the problems associated with "Too Big to Fail."
2. **Pathos**: Pathos is used very little throughout this book. It is mainly used in the beginning chapters of the book, where the authors are defining "Too Big to Fail" and how the government bails them out. Pathos is used when the authors tell the reader how some banks get too much help from the government, which could make the reader angry because banks should be treated just like any other business, and should have the possibility of failing and losing money.
3. **Logos**: Logos is present throughout the book because the authors are stating facts about too big to fail banks, and then showing the reader the problems with these banks using logic. There is also lots of evidence to support the claims that the authors make.

Mishkin, Frederic S. 2006. "How Big a Problem is Too Big to Fail? A Review of Gary Stern and Ron Feldman's *Too Big to Fail: The Hazards of Bank Bailouts*." *Journal of Economic Literature*, 44(4): 988-1004.

1. **Ethos**: The author uses ethos by stating his qualifications: "Columbia University and National Beaureau of Economic Research." He does this to establish credibility for his readers. This is especially important since he is opposing the viewpoint of Gary Stern and Ron Feldman, two people who are very qualified to speak about this topic.

2. **Pathos**: The author does not use pathos because nearly all of what he says is logical. He makes no attempt to persuade the reader through emotional appeals, so there is no pathos involved.
3. **Logos**: Since the author is opposing the argument of two highly qualified people, he uses logic and evidence to back up his claims. He acknowledges the arguments that Gary Stern and Ron Feldman make, but points out that they "do not give enough credit to the FDICIA legislation of 1991 for improving bank regulation and supervision."

Wall, Larry. "Too Big to Fail after FDICIA." *Economic Review* 95.0732-1813 (2010): 1-16. Print.

1. **Ethos**: The author establishes credibility by writing the following in his paper: "The author is a financial economist and policy adviser in the Atlanta Fed's research department." He doesn't say anything about his motives – stating them could have enhanced his ethos.
2. **Pathos**: There is no pathos used because the author is not trying to persuade the reader. The author simply reviews too big to fail and states what he believes were the impacts of the FDICIA. Since he does not make any appeals to the reader's emotion, he is not using pathos in his argument.
3. **Logos**: The author uses logos by logically explaining the possible outcome of a particular event. Here is an example: "One bank's failure may lead to withdrawals at other banks if customers lose confidence that their deposits will be fully redeemed." Here, the event would be a bank's failure, and the possible outcome would be withdrawals at other banks. Using logic, the author concludes that one banks failure could cause withdrawals at other banks.

Annotated Bibliography

I believe that banks that are considered "too big to fail" can only cause more trouble now that they know that the government will bail them out if they are on the verge of bankruptcy. I will discuss the risks associated with banks being "too big to fail" and how banks can use that to their advantage, causing trouble for the government. I will also acknowledge the counter-arguments, such as the fact that our economy largely relies on too big to fail banks and that banking regulation laws significantly reduce the risks associated with too big to fail banks. Finally, I will argue that the government should stop bailing out banks altogether, thus entirely removing Too Big to Fail.

Cunningham, Lawrence. "Too Big to Fail: Moral Hazard in Auditing and the Need to Restructure the Industry before It Unravels." *Columbia Law Review* 106. No. 7 (2006): 1698-1748. Web. 19 Oct. 2014.

This article will be a secondary source of my paper because I will only use it as evidence in one or two paragraphs. The author of this article argues that we need a different industry for auditing so that when banks fail, we do not need to bail them out to prevent an economic crisis. The author has written several books about economics and is a professor at George Washington University, so he seems credible. There doesn't seem to be much of a bias, so I will use some of his facts as evidence in my argument.

Mishkin, Frederic S. 2006. "How Big a Problem is Too Big to Fail? A Review of Gary Stern and Ron Feldman's *Too Big to Fail: The Hazards of Bank Bailouts*." *Journal of Economic Literature*, 44(4): 988-1004. Web. 17 Oct. 2014.

This article will be a main source for my paper, and it argues that banks that are "too big to fail" are not as problematic as Gary Stern and Ron Feldman claim they are, though it acknowledges the fact that a lot of Stern and Feldman's claims are valid. The author argues that banking regulation laws prevent too big to fail banks from causing major damage, and there does not seem to be much of a bias. This source will be useful for my paper since it is a counter-argument to my thesis.

Gary H. Stern, Ron J. Feldman, Too Big To Fail: The Hazards of Bank Bailouts, Brookings Institution Press, Washington, DC, 2004, 230 + xiii pp., index, US$ 32.95, ISBN 0-8157-8152-0.

This book argues that too big to fail banks can create economic disasters and that giving them so much freedom is extremely dangerous. This will be a main source for my paper because it supports my thesis a lot. The authors say that if the government keeps correcting the banks' accidents, they will take bigger risks that will cause bigger catastrophes. This will be useful for my paper because it will help me argue my thesis.

Wall, Larry. "Too Big to Fail after FDICIA." ***Economic Review*** **95.0732-1813 (2010): 1-16. Print.**

This article will be the secondary source for my counter-argument because of the evidence it provides on how the Too Big to Fail problem improved after the FDICIA. The article discusses exactly what it says in the title – the state of Too Big to Fail after the FDICIA legislation of 1991. There does not seem to be any bias, because the author acknowledges counter arguments as well.

Working Bibliography

Thesis: Banks that are considered "too big to fail" can cause economic crises since creditors of these banks are less careful due to the fact that the government will bail out these banks.

Cunningham, Lawrence. "Too Big to Fail: Moral Hazard in Auditing and the Need to Restructure the Industry before It Unravels." *Columbia Law Review* 106.No. 7 (2006): 1698-748. Print.

1. "The probability of an audit firm's failure in the foreseeable future is considerable" (1699).
2. "Four firms audit nearly all large public companies" (1700).
3. "As a matter of intuition, therefore, one may hypothesize that the risk of such a judgment inducing a firm to exit – with resulting industry shrinkage so acute as to threaten industry unraveling – is high in likelihood and severity" (1704).

Mishkin, Frederic S. 2006. "How Big a Problem is Too Big to Fail? A Review of Gary Stern and Ron Feldman's *Too Big to Fail: The Hazards of Bank Bailouts*." *Journal of Economic Literature*, 44(4): 988-1004.

1. "Concerns about bank panics have governments throughout the world to provide a safety net for the banking system" (989).
2. "Indeed, the worst economic downturns are almost always associated with bank panics and financial crises" (989).
3. "The too-big-to fail policy increases the moral hazard problem for big banks" (990).

Stern, Gary H., and Ron J. Feldman. *Too Big to Fail the Hazards of Bank Bailouts*. Washington, D.C.: Brookings Institution, 2004. Print.

4. "To the extent that creditors of TBTF banks expect government protection, they reduce their vigilance in monitoring and responding to these banks' activities" (2).
5. "…we predict that the system will not significantly reduce the probability that creditors of TBTF banks will receive bailouts" (3).
6. "policymakers can take on TBTF expectations more credibly by directly addressing their fear of instability" (4).

Wall, Larry. "Too Big to Fail after FDICIA." *Economic Review* 95.0732-1813 (2010): 1-16. Print.

1. "The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was passed in response to the need for congressional appropriations to fund deposit insurance losses in the thrift industry in 1989" (iii).
2. "Congress addressed the too big to fail issue as a part of its deposit insurance reform bill, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA)" (1).

3. "The failure of a large correspondent bank, which provides check-clearing, ACH, and other ongoing payments services to certain small banks, could directly affect the small banks' access to certain parts of the payments system" (3).

One Source of Each Type

Periodical publication in online database:

Cunningham, Lawrence. "Too Big to Fail: Moral Hazard in Auditing and the Need to Restructure the Industry before It Unravels." *Columbia Law Review* 106. No. 7 (2006): 1698-1748. Web. 19 Oct. 2014.

Online scholarly journal:

Morrison, A. D. "Systemic Risks and the 'too-big-to-fail' Problem'" *Oxford Review of Economic Policy* (2012): 498-516. *Oxford Review of Economic Policy*. Oxford University Press. Web. 12 Oct. 2014. <http://oxrep.oxfordjournals.org/content/27/3/498.abstract>.

Book:

Stern, Gary H., and Ron J. Feldman. *Too Big to Fail: The Hazards of Bank Bailouts*. Washington, D.C.: Brookings Institution, 2004. Print.

Periodical print publication:

Wall, Larry. "Too Big to Fail after FDICIA." *Economic Review* 95.0732-1813 (2010): 1-16. Print.

Research Project

GRADEMARK REPORT

FINAL GRADE

100/100

GENERAL COMMENTS

Instructor

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QM

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