

**Title:**

Unlawful: Lessons from the stock market crashes for law students

**Course Description:**

Stock markets offer a bellwether like assessment of how a modern economy is performing. It is no surprise, that corporate lawyers including business administrators and policy makers pay a lot of attention to how these markets function.

Typically, while there is a large body of literature on the rules for the functioning of the markets (stocks and currency), there are few which offer to analyse why a market crash happens. The analysis is often from participants who have conflicting roles in the crash and therefore suffer from bias. For any modern economy these episodes are, however, traumatic events that massively change the course of business and governance, not to speak of the impact they impose on households in a modern democracy.

To understand the structure of these episodic but inevitable crashes, it is necessary to thus go through a detailed course that begins from basics like the learning of the balance sheets of firms, from small to mega global sized ones to learning about the super structure of laws and policies which shape the modern economy. These studies are therefore different from the study of bankruptcy of firms. These are instead a study of the bankruptcy of economies and nations.

The course will have three parts, depending on the evolving requirement of the students. These are as follows:

- A) Study of the balance sheet, cash flow structure of firms and Understanding of the business environment in which firms, evolve, expand and collapse—laws and policies
- B) Structure of the stock and currency markets, why do they come to occupy a central role for the flow of capital of an economy
- C) Study of the episodes where the markets run into challenges; the resultant crash, the play of laws and rules to avert those and lessons thereof

For law students this knowledge is a crucial part of their armoury. They need to know why such episodes, either domestic or global has happened. This is even more necessary as the responsibility of framing laws and developing regulatory bodies, prior to the crash and in the aftermath is their domain. But the rubric of legal studies do not prepare them with an a priori understanding of the issues involved. They need to know more. They need to know which

combination of laws, rules and practices which surround these markets worked and failed in the run up to these episodes.

For instance, the Satyam crash and the market meltdown, the IL&FS episode and its impact, or the pandemic induced crash, all had different causes. The subsequent corrections were therefore necessarily different. For law students, a detailed study of these is therefore most essential to complete their education.

### **Learning Outcomes:**

It is expected that a law student, the study of this elective will prepare them for a role in a corporation much beyond that obtained as a General Counsel and in their team. The understanding of these issues, in a granular form, will help law graduates to eliminate the difference in knowledge with students of business studies and thus put them in the same cohort in the competition to assume leadership roles in the companies they will join.

The exposure will help students to take up leadership roles in consultancy and advisory bodies to the various layers of governments, in India or abroad. It may be rightly expected that a law student armed with this body of knowledge could easily navigate roles in political consultancies or in the political world, safe in the assurance that none of the key developments in the business world is beyond their understanding.

### **Suggested Literature:**

1. Firefighting: The Financial Crisis and Its Lessons  
Ben Bernanke, Henry M Paulson and Timothy Geithner...Penguin (2019)
2. Why Stock Markets Crash; Critical Events in Complex Financial Systems  
Didier Sornette....Princeton University Press (2017)
3. Global Financial Development Report 2019 / 2020: Bank Regulation and Supervision a Decade after the Global Financial Crisis...World Bank
4. Lords of Finance  
Liaquat Ahamed...Penguin (2019)
5. Makers and Takers  
Rana Foroohar... Penguin (2017)

