Teaching Bank Runs Through Films

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ABSTRACT

The author advocates the use of films to supplement textbook treatments of bank runs and panics in money and banking or general banking classes. Modern students, particularly those in developed countries, tend to be unfamiliar with potential fragilities of financial systems such as a lack of deposit insurance or other safety net mechanisms. Films provide a dramatic example of the panic and uncertainty experienced by depositors and banks during bank runs. Students learn the value of deposit insurance and the types of informational asymmetries safety net mechanisms overcome. The author provides examples of assignments given in the past and possible extensions.

Keywords: bank runs, film examples, teaching

INTRODUCTION

Becker and Watts (1998) detail numerous teaching tools not being used in economics courses, including film examples. This situation is unfortunate given the abundance of films with relevant topics, particularly for classes discussing banking and finance. Film examples can provide dramatic recreations of concepts that textbooks often fail to convey fully. A prime example is a bank run or panic. Modern students, particularly those from developed countries, have little or no experience with bank runs and panics and may lack older family members with first-hand experience. An improved understanding of the nature of bank runs and panics, in particular the uncertainty driving the event, increases student recognition of the social and financial value of deposit insurance systems and the lender of last resort function of central banks. While there are many possible choices, the two films I employ to illustrate these points are *Mary Poppins* and *It's a Wonderful Life*.

Current textbook explanations of bank runs focus typically on asymmetric information issues. Mishkin (2006, 191) cites asymmetric information problems specifically as the cause of bank panics: "depositors, fearing for the safety of their deposits (in the absence of deposit insurance) and not knowing the quality of banks' loan portfolios, withdraw their deposits to the point that the banks fail." Saunders & Cornette (2006, 483) list three factors that would cause an unanticipated deposit shock at a depository institution: concerns about bank solvency, a contagion effect where one failure triggers concerns about solvency at other institutions, or changes in investor preferences away from bank holdings. While the explanations are clear and the supporting examples illustrative, the use of films to supplement these presentations strengthens the comprehension of bank panics in the student's mind. The results are similar to the results obtained by Tinari and Khandke (2000) who used music to demonstrate economic concepts in principles classes. The films combine to offer a picture of the beginning of a bank run and the solution used by one institution to avoid closing. In these films we see dramatic examples of the informational asymmetries that gave depositors pause about leaving their funds in a depository institution prior to deposit insurance mechanisms.

INTRODUCING THE FILMS

I explain to students the rough background of the time periods as it relates to the financial institutions. In particular, I point out that neither of the fictional institutions in the films operated in a country with deposit insurance. The students are given the details of any assignment or possibility of test questions prior to viewing the film and are told that we will discuss the film clip after the viewing.

In *Mary Poppins* a young boy's comments are overheard out of context by depositors at the bank. As young Michael, the child of a bank officer, shouts for the bank president to "give me back my money", having just had the funds tricked out of his hand by the bank president, depositors at the bank believe it is a situation where the bank is not paying back a depositor. One woman comments to another, "There's something wrong. The bank won't give someone their money." The woman' response is immediate as she addresses her friend and the teller, "Well, I'm going to get mine! Come along, young man! I want every penny!" The other depositors then engage in a literal race to the window to remove their deposits and prevent any losses on their part. Mayhem ensues as more depositors attempt to enter the bank and remove their funds. The bank decides to close their teller windows, place all funds in the vault, and shut their doors against the throng of depositors attempting to gain entry to the bank as a way to stop the run.

The scene introduces the fragility of the banking system in 1910 London, the financial center of the world at the time. Even in the relative financial sophistication of Lombard Street there could be a bank run due to the lack of deposit insurance. This provides a perfect opportunity to illustrate the removal of the race to the window provided by such a safety net. A guarantee of deposit reimbursement, at least up to a maximum amount, eliminates the need for depositors to queue to remove their funds to protect themselves against losses. Another value to this example is the setting: most discussions of bank runs and panics focus on Great Depression era United States due to the bank panics of that time.

A scene from *It's a Wonderful Life* reinforces many of these ideas. Before they are able to leave town for their honeymoon George and Mary Bailey happen across a run on their small town's bank. As the manager of an alternative local financial institution, Bailey Bros. Building & Loan, George discovers his institution without any liquid funds because the bank called their loan. Discussing the events with his uncle and co-operator of the Building & Loan some telling comments are made. In particular, when George asks Uncle Billy how the run started Uncle Billy replies, "How does something like this ever start?" The uncertainty implied by this statement resonates with students. Even though it is a fictional portrayal of events, students know similar events really happened. Despite their personal inexperience with financial contagion they start to understand the asymmetric information problems present in financial markets and the fragility of banking systems that lack a safety net mechanism such as deposit insurance.

The panic-stricken depositors demand the repayment of their shares and with no funds forthcoming consider the sale of their shares to the local wealthy man, at a discount of course. This would cede control of the institution to him. To prevent the takeover, George and Mary Bailey use their honeymoon funds, probably best thought of as an injection of owner equity though some students liken it to a lender of last resort, to pay out partial amounts to depositors and save the Building & Loan.

ASSIGNMENTS AND EVALUATING STUDENT RESPONSES

Over the years I developed numerous assignments based on the films. These include short papers for extra credit or as a normal assignment, essay questions on exams, and multiple choice questions on exams. Personal favorites include essay questions focusing on the exact nature of the problem in the film clip and available solutions, if any.

Student responses, regardless of the form of the film clip assignment, have been positive. Many students have seen the films before, but appreciate it at a different level now. Students also appreciate the novelty of the presentation. In addition, my students respond that other business classes do not use film examples. Several students even reported that they now look at other films for examples of economics and finance concepts.

EXTENSIONS

While the focus of this note is bank runs, it is the case that financial markets and institutions are common topics and settings in many films. Making use of these dramatic representations of concepts and events taught in the classroom provides the student with a richer learning environment. Those worried about the amount of class time devoted to such a presentation could develop an out of class project that requires students to visit the A/V center at the library to watch films or selected clips and then undertake an assignment based on the film (again similar to Tinari and Khandke (2000)).

An alternative exercise that students also enjoy is to examine films for errors in financial procedure, practice or outcomes used for dramatic effect in a film Students enjoy looking for such problems and such an exercise helps remove potential errors or misperceptions on the part of students related to the workings of financial markets.

CONCLUSION

The use of films to explain bank runs engage students in a visual manner not available for textbook approaches. Students also gain insight into an event they are unlikely to observe, given the existence of safety nets in most of the developed world's financial systems. They see the valuable role played by deposit insurance and other safety net mechanisms in the prevention of bank runs and stemming potential bank and financial panics.

AUTHOR INFORMATION

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