

## **Seminar in Economics: Global Financial Crises: Economics 220:495**

**Fall 2016**

**Michael Bordo**

MTh 9:50 to 11:10, CAC MU-211 **starts September 8, 2016**

**Office Hours: by appointment**

### **Course Description**

The world witnessed a major financial crisis and a deep recession from 2007-2009. The U.S. is still enmeshed in a slow recovery. The Eurozone is struggling with a debt crisis that began in 2010. China is trying hard to avoid a financial meltdown. This is not the first time we have experienced such events. Indeed financial crises can be traced back to early modern times and beyond. This course will focus on the issue of financial crises from an historical perspective. It will survey the history of banking, currency and debt crises across the world for the past century and a half, but focus primarily on the experience of the US and UK. It will end with a discussion of the 2008 crisis in the US and the Eurozone crisis 2010-2013.

It will also examine the empirical evidence on crisis incidence, crisis severity and international crisis transmission. Finally the course considers the issue of policy in dealing with crises, with focus on the lender of last resort.

### **Course Requirements**

This course is a seminar course. All students are expected to do the readings before the course. One Student will lead the discussion on the subject as will I. In addition to the seminar discussion, each student will be required to write a research paper on a topic which interests them. Students can pick one of the topics from my list or choose another topic. The paper should be no longer than 20 pages double spaced. A detailed outline of the paper will be due by October 31. The paper will be due December 5. The topics chosen should be cleared with me beforehand. The grading for the course will be based 40% on the paper; 40% on a take home final examination; and 20% on class participation.

### **Textbooks ( Required)**

Carmen Reinhart and Kenneth Rogoff, *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press. 2010.

Charles P. Kindleberger and Robert Z. Aliber, *Manias, Panics and Crashes: A History of Financial Crises* Sixth edition Palgrave MacMillan. 2011

Milton Friedman and Anna Schwartz. *The Great Contraction*. Princeton University Press 2008

Barry Eichengreen. *Golden Fetters: The Gold Standard and the Great Depression*. Oxford University Press . 1992

Ben Bernanke . *The Federal Reserve and the Financial Crisis*. Princeton University Press. 2013

Barry Eichengreen. *Hall of Mirrors: The Great Depression, The Great Recession and the Uses and Misuses of History*. Oxford University Press. 2015

Neil Irwin. *The Alchemists; Three Central Bankers and a World On Fire*. Penguin 2013

David Marsh. *Europe's Deadlock: How the Euro Crisis Could Be Solved and Why it Wont Happen*. Yale University Press 2013

### **Collections of Articles on Financial Crises**

Michael D. Bordo. *Financial Crises*. Edward Elgar Publishers. 1992

Charles Goodhart and Gerhard Illing. *Financial Crises, Contagion , and the Lender of Last Resort*. Oxford University Press 2002

Franklin Allen and Douglas Gale. *Financial Crises*. Edward Elgar Publishers. 2008.

Articles on the reading list if possible will be placed on the course website on **Sakai**

### **Suggested Term Paper Topics**

1. Why did the U.S. have more banking crises than other industrial countries?
2. The Bank of England and the Crisis of 1825
3. The Bank of England and the Crisis of 1847
4. The Bank of England and the Crisis of 1857
5. The Bank of England and the Crisis of 1866
6. The Baring Crisis of 1890
7. The Banque de France and the Crisis of 1882
8. Andrew Jackson and the Crisis of 1837
9. JP Morgan and the Crisis of 1907
10. Clearing Houses and the Crises of the National Banking Era
11. The Belmont Morgan Syndicate
12. Emerging Market Debt Crises in the 1890s
13. The Resolution of the Crisis of 1914 in the U.S.

14. The Federal Reserve and the Wall Street Crash of 1929
15. The Federal Reserve and the Sterling Crisis of 1931
16. The Banking Holiday of 1933
17. The Franc Crisis of 1923
18. The end of the Gold Bloc in 1936
19. The Sterling Crises of the 1960s
20. The Gold Crisis of 1968
21. The Dollar Crisis of 1971
22. Resolution of the Latin American Debt Crisis in the 1980s
23. The Tequila Crisis of 1994/1995
24. The IMF in the Asian Crisis of 1997
25. The Argentine Crisis in 2002
26. The Housing Bust of 2006
27. Bear Stearns and Lehman Brothers
28. The Panic in the Shadow Banking System
29. Breaking the Buck
30. Article 13(3)
31. The Greek Debt Crisis 2010-2015
32. The Irish Crisis in 2010
33. The Spanish Crisis in 2011
34. Contagion in the Eurozone
35. ECB Crisis Management

### **Schedule of Seminars and Readings**

Thursday September 8th Organization/Overview.

Week 1 Tuesday September 12, 15 **The Crisis Problem**

No Class Thursday September 10

Week 2 , September 14,17. **The Crisis Problem**

## Readings

Michael Bordo, "Introduction" in *Financial Crises*. Edward Elgar 1992

Franklin Allen and Douglas Gale "Introduction" *Financial Crises*. Edward Elgar 2008

Anna J. Schwartz (1986), "Real Versus Pseudo Financial Crises" in Michael D. Bordo (ed) *Financial Crises*. Edward Elgar (1992)

Week 2, September 19, 22 No classes I will be in Europe.

Week 3, September 26, 29 **Empirical Dimensions**

## Readings

Michael Bordo, Barry Eichengreen, Daniela Klingebiel and Maria Soledad Martinez Peria (2001) "Is the Crisis Problem Growing More Severe?" in Franklin Allen and Douglas Gale (eds) *Financial Crises*. Edward Elgar 2008

Carmen Reinhart and Kenneth Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press. 2009 chapters 1,10,13,14 15,16,17.

Michael Bordo and Christopher Meissner "Fiscal Crises and Financial Crises" NBER Working paper 22059 2016

Week 4 October 3, 6 **Historical Crises in Europe**

## Readings

Charles Kindleberger and Robert Aliber. *Manias, Panics and Crashes*. 2011

Larry Neal. "The Bank of England's First Return to Gold and the Stock Market Crash of 1825". *Federal Reserve Bank of St. Louis Review*, vol 80 No.3 May/June 1998

Rudiger Dornbusch and Stanley Fischer, "The Gold Standard and the Bank of England in the Crisis of 1847" reprinted in Michael Bordo. *Financial Crises* Edward Elgar 1992

Roy Batchelor, "The Avoidance of Catastrophe: Two Nineteenth Century Banking Crises" (1986) reprinted in Michael Bordo. *Financial Crises*. Edward Elgar 1992

Week 5, October 10,13 **US Financial Crises Before the Civil War**

## Readings

David Cowen, Richard Sylla and Robert Wright, "The US Panic of 1792: Financial Crisis Management During the US Financial Panic of 1792". *Business History Review* vol 83, pp 61-86 Spring 2009.

Peter Temin, *The Jacksonian Economy*. Chapter 4 WW Norton 1969

Peter Rousseau, "Jacksonian Monetary Policy, Specie Flows and the Panic of 1837" *Journal of Economic History*. 2002.

John Wallis, “ What Caused the Crisis of 1839?” *NBER Historical Paper Series on Long-Run Economic Growth* 2001.

### **Suggested Reading**

Gary Gorton, “ Banking Panics and Business Cycles’ reprinted in Michael Bordo *Financial Crises*. Edward Elgar, 1992

Week 6 October 17,20 **US Crises: The National Banking Era**

### **Readings**

Milton Friedman and Anna Schwartz. *A Monetary History of the United States 1867 to 1960*. Princeton University Press 1963 chapters 3 and 4.

Elmus Wicker. *Banking Panics of the Gilded Age*. Cambridge University Press 2000

### **Suggested Readings**

O.M.W. Sprague. *A History of Crises Under the National Banking System*. National Monetary Commission 1910

Jonathan Moen and Ellis Tallman, “ The Bank Panic of 1907: The Role of the Trust Companies” *Journal of Economic History*. September 1992

Robert Bruner and Sean Carr, *The Panic of 1907: Lessons Learned from the Market’s Perfect Storm*. Wiley Publishers 2007.

William Silber, “ The Great Financial Crisis of 1914: What Can We Learn from Aldrich Vreeland Emergency Currency?” *American Economic Review*, Vol 97 No.2 May 2007.

Jeffrey Miron ,“ Financial Panics, Seasonality of the Nominal Interest Rate and the Founding of the Fed” *American Economic Review*, March 1986

Charles Calomiris and Gary Gorton, “ The Origins of Banking Panics: Models, Facts and Bank Regulation” in R. Glenn Hubbard, *Financial Markets and Financial Crises*. University of Chicago Press 1991

Week 7 October 24,28. **The Great Depression in the US**

### **Readings**

Milton Friedman and Anna Schwartz, *The Great Contraction*. Princeton University Press 2008

Elmus Wicker, *The Banking Panics of the Great Depression* . Cambridge University Press 1996

Ben Bernanke,” Non - Monetary Effects of the Financial Crisis in the Propagation of the Great Depression” *American Economic Review* June 1983

## **Suggested Readings**

Michael Bordo and John Landon Lane, "The Banking Panics in the United States in the 1930s: Some Lessons for Today" chapter 7 in Nicholas Crafts and Peter Fearon (eds) *The Great Depression of the 1930s: Lessons for Today*. Oxford University Press 2012

Barry Eichengreen. *Hall of Mirrors; The Great Depression, The Great Recession and the Uses and Misuses of History*. Oxford University Press 2015

Week 8 October 31 November 3 **The Global Great Depression**

## **Readings**

Barry Eichengreen, *Golden Fetters; The Gold Standard and Great Depression*. 1992 Oxford University Press

## **Suggested readings**

Ben Bernanke, "The Macroeconomics of the Great Depression: A Comparative Approach" (1995) Chapter 1 in Ben Bernanke *Essays on the Great Depression*. Princeton University Press. 2000

Barry Eichengreen. *Hall of Mirrors: The Great Depression and The Great Recession and the Uses and Misuses of History*. Oxford University Press 2015

Ben Bernanke and Harold James, "The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison" chapter 3 in Ben Bernanke, *Essays on the Great Depression*. Princeton University Press 2000

Charles Kindleberger, *The World in Depression 1929-1939*. University of California Press 1986

Liaquat Ahmed. *Lords of Finance*. Penquin 2010

Peter Temin and David Vines. *The Leaderless Economy: Why the World Economic System Fell Apart and How to Fix it*. Princeton University Press 2013

Week 9 November 7,10 **The International Transmission of Financial Crises**

## **Readings**

Michael Bordo, "The Impact and International Transmission of Financial Crises: Some Historical Evidence, 1870-1933" (1985) in Michael Bordo, *Financial Crises*. Edward Elgar 1992

Charles Kindleberger, "International Propagation of Financial Crises; the Experience of 188-93" (1985) in Michael Bordo, *Financial Crises*. Edward Elgar 1992

Barry Eichengreen and Richard Portes, "The Anatomy of Financial Crises" in Michael Bordo, *Financial Crises*. Edward Elgar. 1992

Wallace Huffman and James Lothian “ The Gold Standard and the Transmission of Business Cycles, 1833-1932.” In Michael Bordo and Anna Schwartz ( eds) *A Retrospective on the Classical Gold Standard 1821-1931*. University of Chicago Press, 1983

### **Suggested reading**

Michael Bordo and Antu Murshid, “ Are Financial Crises becoming More Contagious?” chapter 14 in *International Financial Contagion*. (eds) Stijn Claessens and Kristin J Forbes. Kluwer Publishers 2001.

Michael Bordo and John Landon Lane. “ The Global Financial Crisis of 2007-08; Is it Unprecedented/’ *NBER Working Paper* 16589 2010.

Week 10, November 14,17 **The Lender of Last Resort**

### **Readings**

Michael Bordo “ Rules for a Lender of last Resort : An Historical Perspective” *Journal of Dynamics and Control* . Volume 49. December 2014

Walter Bagehot, *Lombard Street; A Description of the Money Market* . London 1873

Michael Bordo, “ The Lender of Last Resort: Alternative Views and Historical Experience” ( 1990) in Michael Bordo. *Financial Crises*. Edward Elgar 1992

Forrest Capie, “ The Emergence of the Bank of England as a Mature Central Bank.” In Donald Winch and Patrick O’Brien ( eds) *The Political Economy of British Historical Experience*. Oxford University Press 2002.

Vincent Bignon, Marc Flandreau and Stefano Ugolini, “ Bagehot for Beginners: The Making of Lending of Last resort in the Mid 19<sup>th</sup> Century” *Economic History Review* 2012

### **Suggested Reading**

Charles Goodhart. “ Why Do Banks need a Central Bank?” ( 1987) in Michael Bordo, *Financial Crises*. Edward Elgar 1992

Marvin Goodfriend and Robert King, “ Financial Deregulation, Monetary Policy and Central Banking” ( 1988) in Michael Bordo, *Financial Crises*. Edward Elgar 1992

Michael Bordo and David Wheelock, “ The Promise and Performance of the Federal Reserve as Lender of last Resort 1914-1933” chapter 2 in Michael Bordo and William Roberds (eds) *The Origins, History, and Future of the Federal Reserve*. Cambridge University Press 2013

Weeks 11,12 November 21,22,28 **The Crisis of 2007-08**

### **Readings**

Ben Bernanke, *The Federal Reserve and the Financial Crisis*. Princeton University Press 2013  
chapters 3,4

Michael Bordo, “ An Historical Perspective on the Crisis of 2007-08” *NBER Working paper* 14569  
December 2008

Michael Bordo and Harold James, “ The Great Depression Analogy” *NBER Working paper* 15584  
December 2009.

Carmen Reinhart and Kenneth Rogoff, *This Time is Different*. Princeton University Press 2009.  
Chapter 13

### **Suggested Readings**

Alan S. Blinder. *After the Music Stopped: The Financial Crisis, the Response , and the Work ahead*.  
Penguin 2013

Gary Gorton, *Slapped by the Invisible Hand; The Panic of 2007*. Oxford University Press. 2009

Markus Brunnermeir, “ Deciphering the 2007-2008 Liquidity and Credit Crunch” *Journal of Economic Perspectives*, 2009, vol 23 No 1 pp 77-100

Mervyn King , *The End of Alchemy: Money , Banking, and the Future of the Global Economy*. WW  
Norton 2016

Week12,13, November 20, December3 December 5 **The Eurozone Crisis**

### **Readings**

David Marsh, *Europe’s Deadlock*. Yale University Press

Michael Bordo and Harold James, “ The European Crisis in the Context of the History of Previous  
Financial Crises” *NBER Working paper* 19112 . June 2013.

Michael Bordo, Lars Jonung and Agnieszka Markiewicz, “ A Fiscal Union for the Euro: Some Lessons  
from History” *NBER Working paper* 17380 2011

### **Suggested Reading**

Harold James. *Making the European Monetary Union*. Harvard University Press 2012

Markus Brunnermeir, Harold James and Jean Pierre Landau *The Euro and the Battle of Ideas*  
Princeton University Press 2016