

FINANCIAL CRISIS ECON 464W Winter 2015 Draft 01/5/2015

INSTRUCTOR: Levis A. Kochin
CLASS: Monday/Wednesday 1:30PM-3:20PM, Savery 156
First class Wednesday September 24, 2014
EMAIL: lakochin@u.washington.edu
OFFICE: Savery 334
TELEPHONE: (206)-543-5845
OFFICE HOURS: Tuesdays 2:00PM-4:00PM and by appointment
COURSE DESCRIPTION:

I started teaching ECON 464 in 1997 during the Asian Financial Crisis. It is a course in Macroeconomic History. We start with the invention of money in the New Stone Age and end in the current headlines. The greater the current crisis, the more the course is one in current events. In 2003 to 2007 the financial news looked dull and "Financial Crisis" was a history course. Fortunately for the course and unfortunately for the world, for the last five years financial crisis has been a current event. We are scheduled to devote three lectures on the Financial Crisis of 2007, the European Debt Crisis and the slow recovery in the US at the end of the course. But I will go with the flow (of news) and there will be occasional segments on how the history we are covering rhymes with the news.

The center of ECON 464 is the mother of all financial crises: The Great Contraction of 1929 to 1933 and the incomplete recovery which followed. Events then have echoes today. Other highlights of the course (going in time order) include:

- 1) The extinction of the US national debt in the 1830s and the pretty great depression of the 1840s
- 2) The controversies over the Gold Standard in the US from 1865 to 1900 and their echoes today
- 3) The perfect storm of financial crisis in the US in 1907 and the formation of the Fed
- 4) The collapse of the World Gold Standard and the explosion of national debt during World War I
- 5) Fiscal wars of attrition in France and Germany in the 1920s and the inflation (France) and hyperinflation (Germany) these wars caused
- 6) "The Dog Which Didn't Bark"—Why few financial crises from 1946 to 1980?
- 7) Bubbles and Busts from Tulips (1600s) to Wall Street (1920s), , to Asian Tigers (boom to 1997), to houses (Boom 1999 to 2007)
- 8) The Financial Crisis of 2008, the Great Recession, and the Eurocrisis

REQUIRED TEXTS

- 1) *The Wall Street Journal or The Economist*
- 2) Barry Eichengreen, *Globalizing Capital: A History Of The International Financial System*, 2nd Edition, Princeton Univ. Press 2008; Available on Amazon Soon at UW Bookstore
- 3) Milton Friedman and Anna Jacobson Schwartz *A Monetary History Of The United States, 1867-1960*, Princeton University Press 1963; Copies available now in the UW Library (a few copies), and at Amazon (new and used) available with the same text in both in softbound and hardbound
- 4) A collection of readings posted on a Catalyst

Assignments from the Catalyst readings are indicated below by *

Required- for those doing a term paper on the 1920s or 1930s:

Barry Eichengreen, *Golden Fetters*; Oxford University Press 1991

KEY DATES

QUIZZES: Unscheduled, best 3 of 5 **20% of Term Grade**
FINAL: Thursday March 19 2:30-4:20PM **30% of Term Grade**
TERM PAPER:

- 1) Proposal Due in class Wednesday January 21
- 2) A term paper proposal of 1 page with 3 references **No Grade**
 At least 1 reference to an article on this assignment list
 At least 1 reference to an article NOT on this assignment list
 At least 2 References have to be to material not published only on the Web
 One of the references must be *Golden Fetters* if the paper is on the 1920s or 1930s
- 3) Preliminary Term Paper Due in class Wednesday February 18 **10% of Term Grade**
 Approved Proposal must be resubmitted with Preliminary Term Paper
 Preliminary Term Paper must be at least six pages with at least six references and in addition at least two graphs or charts
- 4) Final Term Paper Due Tuesday March 17 4PM **40% of Term Grade**
 The Final Term Paper of 12-15 pages (double spaced) of text and at least 3 pages of graphs or charts and at least seven references
 .1 penalty for late Term Paper grade if submitted at Final
 .2 penalty for late Term Paper grade if submitted by first Friday of Spring Quarter
 The Graded Preliminary Term Paper must be Resubmitted with Final Term Paper

Some helpful WEBSITES

ROUBINI <http://www.rgemomonitor.com/>
DELONG <http://econ161.berkeley.edu/>
IMF <http://www.imf.org>
Bordo <http://michaelbodo.googlepages.com/>
NBER <http://papers.nber.org/papers.htm>

Assignments Winter 2015

Monday January 5

Introduction, First Class

- * R. A. Radford “The Economic Organization of a POW Camp” *Economica* November 1945
- Paul Krugman “Baby Sitting the Economy” *Slate* 8/13/1998
- A copy of this paper is being emailed with this Assignment List

Wednesday January 7 :

The Classical Gold Standard and Bank Crisis

- Friedman and Schwartz, *A Monetary History*; Ch 1, 3, 4 and Appendix B
- Eichengreen, *Globalizing Capital*: Chapters 1 & 2
- Michael Bordo, “Gold Standard” *The Concise Encyclopedia of Economics*
 A copy of this paper is being emailed with this assignment list
- *Michael Bordo and Hugh Rockoff: “Not Just the Great Contraction: Friedman and Schwartz’s *A Monetary History of the United States, 1867-1960*” *American Economic Review* Vol. 103 No. 3 May 2013 pp. 61-65

Monday and Wednesday January 12 and 14 :

World War I; Debts and Deficits

Friedman and Schwartz, *A Monetary History* Ch 5

*Mankiw, N. G., "The Debates Over Government Debt" Ch.15 *Macroeconomics* 5th Edition 2003
some pages from Ch. 16 of 4th Edition

*Mankiw, N.G., "The Spenders-Savers Theory of Fiscal Policy" *American Economic Review* May 2000
120-125

*Thomas Sargent "The United States Then Europe Now" Nobel Prize Address

***** Term Paper Proposal Due Wednesday January 21 *****

Wednesday January 21

The 1920s

Eichengreen, *Globalizing Capital* Ch 3 pp 45-67

Friedman and Schwartz, *A Monetary History* Ch 6

*Daniel K. Benjamin and Levis Kochin, "Searching for an Explanation of Unemployment in Interwar Britain" *The Journal of Political Economy*, June 1979 441-478 This assignment is mislabeled on Catalyst as Klein and Kochin

Monday January 26:

Booms and Bubbles

*Eugene N. White, "The Stock Market Boom and Crash of 1929 Revisited" *The Journal of Economic Perspectives* Spring 1990

*Andrew Shleifer and Lawrence H. Summers, "The Noise Trader Approach to Finance" *The Journal of Economic Perspectives* Spring 1990

*Ben S. Bernanke, "Asset Price 'Bubbles' and Monetary Policy" Speech October 15, 2002

*Peter M. Garber, "Famous First Bubbles" *The Journal of Economic Perspectives* Spring 1990

Wednesday January 28 Monday February 2 Wednesday February 4 :

The Great Contraction 1929-1933

Friedman and Schwartz, *A Monetary History* Ch 7

Eichengreen, *Globalizing Capital* Ch 3 pp 68- 91

*Irving Fisher, "The Debt-Deflation Theory of Great Depressions" *Econometrica* Vol.1 (October 1933)
337-357

*Gov. Ben Bernanke, "On Milton Friedman's Ninetieth Birthday" Speech Nov. 8, 2002

*Ben Bernanke, "The Macroeconomics of the Great Depression: A Comparative Approach" *The Journal of Money Credit and Banking* Vol. 27 No. 1 February 1995 .1-28

*Christina D. Romer and David H. Romer, "The Missing Transmission Mechanism in the Monetary History of the Great Depression" *American Economic Review* vol 103 No. 3 May 2013 66-72

Monday February 9

The New Deal, the Nazis, and the French 1933-1939

Friedman and Schwartz, *A Monetary History* Ch. 8 and 9

*Eichengreen, *Golden Fetters*, Ch. 11 "The Dollar and the World Economic Conference"

*Christina D. Romer and David H. Romer, "The Most Dangerous Idea in Federal Reserve History: Monetary Policy Doesn't Matter" *American Economic Review* vol 103 No. 3 May 2013 55-6

Wednesday February 11

The Rise and Demise of the Breton Woods System 1944-1973

Eichengreen, *Globalizing Capital*: Ch 4

Monday February 16 President's Day NO Class

Wednesday February 18

Emerging Market Debt Crises—1980s and 1990s

Eichengreen, *Globalizing Capital* Ch 6 and 7

*Rudi Dornbusch, “A Primer on Emerging Market Crises” MIT January 2001

*Levis A. Kochin, “Real (Estate) Booms and Busts” Univ. of Washington October 1996

*****Preliminary Term Paper Due Wednesday February 18 *****

Monday February 23 and Wednesday February 25 :

Japan’s Slump, Liquidity Traps and Monetary Policy: Lessons for US ?

*“Inflation Targeting” *Wikipedia*

*Ben Bernanke, “A Perspective on Inflation Targeting” Speech Given March 2003

*“Taylor Rule” *Wikipedia* **READ THE CURRENT VERSION OF THE WIKIPEDIA ARTICLE**

*Paul Krugman, “Thinking About the Liquidity Trap” MIT Dec. 1999

*Gov. Ben Bernanke, “Some Thoughts on Monetary Policy in Japan” Speech 2003

*N. Kundan Kishor and Levis A. Kochin, “The Success of the Fed and the Death of Monetarism” *Economic Inquiry* January 2007 56-70

Monday March 2 and Wednesday March 6 :

The Housing Boom and Bust, the Credit Crisis, and the Great Recession

*Robert Hall, “Why Does the Economy Fall to Pieces after a Financial Crisis” *Journal of Economic Perspectives* Fall 2010 pp. 3-20

*Michael Woodford, “Financial Intermediation and Macroeconomic Analysis” *Journal of Economic Perspectives* Fall 2010 pp. 21-44

*Lee E. Ohanian, “The Economic Crisis from a Neoclassical Perspective” *Journal of Economic Perspectives* Fall 2010 pp.45-66

*“Symposia The First 100 Years of the Federal Reserve” *Journal of Economic Perspectives* Fall 2013 pp. 3-120; Articles by Bernanke, Gorton and Metrick, Rotenberg, Eichengreen, and Feldstein are required; the article by Reis is recommended

*Michael Bordo and Joseph Haubrich, “Deep Recessions, Fast Recoveries, and Financial Crises: Evidence from the American Record” NBER working paper no. w18194, 2012

Monday March 9 and Wednesday March 11 :

The Eurocrisis of 2008 to ?

*“Eurozone Crisis” *Wikipedia* **READ THE CURRENT VERSION OF THE WIKIPEDIA ARTICLE**

*Michael Bordo and Harold James, “The European Crisis in the Context of the History of Previous Financial Crises” NBER working paper no. w19112, 2013

*Michael Bordo, “Tales from the Bretton Woods” NBER working paper no. w20270, 2014
Additional Readings to be added

FINAL TERM PAPER Due: Tuesday March 17 4PM Economics Office \40% of Term Grade

FINAL EXAM : Thursday March 19 , 2:30-4:20PM Savery 166 30% of Term Grade

52+ Suggested Term Paper Topics

- 1) Hamilton and his Blessing (The US National Debt) Choose a period I suggest 1789 or 1837 or 1885 or 1945
- 2) Baghot and The Bank of England ...
- 3) Boom and Bust in Seattle 1880-1900
- 4) Would the US have been better off from 1879 to 1914 with silver?
- 4a) Why did the US have more crises than other industrial countries before 1913?
- 5) JP Morgan and the Crisis of
- 6) The Bank of England in the Baring Crisis and the Federal Reserve System in the Fall of 1998
- 7) The Crisis of 1907 and the Formation of the Federal Reserve System
- 8) The Financial Crisis of Summer 1914 in ...
- 9) The Depression of 1920
- 10) Did the Fed Stop the Deflation too Soon in 1921?
- 11) Hyperinflation and/or Stabilization in Germany
- 12) Inflation and/or Stabilization in France in the 1920s
- 13) Unemployment in the UK, France or Germany in the 1920s
- 14) A Bubble- 1929 Stock Market? Japanese Stock Market 1990? NASDAQ 2000? US Houses 2006?
- 15) Hoover and the Great Contraction?
- 16) The Fed and The Stock Market in 1929, 1987, 2001-2002, 2007-2010
- 17) Did the 1920s Boom Cause the Depression?
- 18) Could the US have Reversed the Great Contraction without Devaluation?
- 19) The French Cause the Great Contraction?
- 20) Did the Death of Strong Cause the Great Contraction?
- 21) Irving Fisher and The Great Contraction
- 22) Why Didn't Output Fall on US Farms in the Great Contraction?
- 23) Real Wages in Farms and Cities in the Great Depression
- 24) The Devaluation of the British Pound in 1931
- 25) The Depression in Germany 1929-1933
- 26) The European Bank Crisis of 1931
- 27) The Golden Avalanche and Recovery in the US
- 28) Liquidity Traps in the 1930s and the current crisis
- 29) Roosevelt and Depression in China and France
- 29a) The roles the Roosevelt Treasury and the Fed in generating the Recession of 1937
- 30) Japan in the Great Depression
- 31) Recovery and Devaluation in the 1930s
- 32) The National Recovery Administration and the Recovery From the Great Contraction
- 33) Economic recovery in one of the UK, the US, Sweden, Japan, Netherlands, France or Germany
- 34) Boom in Palestine in the 1930s
- 34a) Why did Rosie rivet?
- 35) The return of convertibility in Europe 1948- 1980
- 35a) Why didn't the dog bark? Why so few financial crises from 1945 to 1980?
- 36) Nixon and Inflation in the 1970s or Nixon and the First Oil Crisis
- 37) The Stock Market Boom in the US 1946-1965 or in 1982-2001 or 2009-2013
- 38) Was the Boom in Japan to 1990 a Bubble?
- 39) Hyperinflation in (one of) Argentina, Brazil, Russia, Serbia, the Ukraine or Zimbabwe
- 40) Financial Crisis 1980 to 2013 in (one of) Argentina, Brazil, Chile, Greece, Iceland, Ireland, South Korea, Malaysia, Thailand, Indonesia, Israel, Russia, Turkey or Japan
- 41) Inflation and stabilization 1970-2010 in one of the US, Israel, Argentina, Brazil, Mexico, and the UK
- 41a) German Unification and the EMS Crisis of 1993
- 42) The global savings glut and the shortage of women in China
- 43) Japanese monetary and fiscal policy in the 1940s, 1950s, 1970s, 1980s, 1990s or 2012-2013
- 44) Fannie Mae and Freddie Mac and the current crisis
- 45) Housing Boom and Bust 2001-2009 Spain, Iceland, Ireland, Las Vegas, Phoenix, Miami, or the Inland Empire.
- 46) Why no Housing Boom or bust in Texas and or Germany 2000-2012 ?
- 47) The Taylor Rule 2000-2013
- 48) Should we cry for you Argentina?
- 49) Washington Mutual and the Housing Crisis
- 50) Lehman Bros and the Credit Crisis of 2008-2009
- 51) The TARP
- 51a) US State Budgets in 2007 to 2013 pick a state and compare with the country as a whole
- 52) Governmental Debts and Deficits now in California, Illinois, US, UK, Greece, Dubai, China, Ireland, Norway, Japan, Belgium, Portugal, Spain, Japan, China, Israel or Italy

- 52a) Euroland in and after the Great Recession Choose One country except Luxemburg
- 52c) California, Nevada, Florida, Washington, North Dakota or some other state in the Great Recession
- 52d) Boom and Bust in the Oil Patch and in the US Economy
- 52e) Financial "Original Sin"
- 52f) The Yen Carry Trade
- 52g) Abonomics
- 52h) Fischer at the Bank of Israel
- 52i) Pick a Fed Chair any Chair or any President of the Federal Reserve Bank of New York