

FINANCIAL CRISIS ECON 464W Spring 2016 Draft 03/17/23

INSTRUCTOR: Levis A. Kochin
CLASS: Monday/Wednesday 1:30PM-3:20PM, Savery 166

EMAIL: lakochin@u.washington.edu
OFFICE: Savery 334
TELEPHONE: (206)-543-5845
OFFICE HOURS: Thursdays 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 the reaction of the Fed to the Financial Crisis of 2008 and the Great Recession which followed were importantly shaped by the fact that Ben Bernanke is the leading living economic historian of the Great Depression. 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 fiscal wars of attrition 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

Assignments Spring 2016

Introduction and The History of Money and Finance Monday March 28

R. A. Radford “The Economic Organization of a POW Camp” *Economica* November 1945

Wednesday March 30 Monday April 4 Financial Crisis and The Classical Gold Standard

Friedman and Schwartz, *A Monetary History*; Chapters 1 & 3
Eichengreen, *Globalizing Capital*: Chapters 1 & 2
Michael Bordo, “Gold Standard” *The Concise Encyclopedia of Economics*

*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

The Banking Crisis of 1907 and the Formation of the Federal Reserve System Wednesday April 6

Eichengreen, *Globalizing Capital*: Chapters 2
Ben S. Bernanke *The Federal Reserve and the Financial Crisis* Lecture 1
Friedman and Schwartz, *A Monetary History*; Ch. 4 and Appendix B

Monday April 11 Wednesday April 13 World War I – Government 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

Monday April 18 The 1920s In Europe

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

***** Term Paper Proposal Due Wednesday April 20 *****

Wednesday April 20

The US in the 1920s Was it a Booms or a Bubble?

- *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

Monday April 25 Wednesday April 29

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
- Ben S. Bernanke *The Federal Reserve and the Financial Crisis* Lecture 1
- *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 May 2

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

*****Preliminary Term Paper Due Wednesday May 4**

Wednesday May 4

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

- Ben S. Bernanke *The Federal Reserve and the Financial Crisis* Lecture 2
- Eichengreen *Globalizing Capital*

Monday May 9 Wednesday May 11

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

Monday May 16 Wednesday May 18

Japan's Real Estate Bubble and Bust:

A Preview of the Great Recession and its Aftermath

- *"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 May 23 and Wednesday May 25

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

- Ben S. Bernanke *The Federal Reserve and the Financial Crisis* Lectures 3 and 4
- *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, Rotemberg, Eichengreen, and Feldstein are required; the article by Reis is recommended

Memorial Day Monday May 30

Wednesday June 1 :

The Eurocrisis of 2008

- *"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 Monday June 6 2:30PM

FINAL EXAM : Monday June 6 2:30-4:20PM Savery 166

is role in 52+ Suggested Term Paper Topics

- 1) Hamilton and his Blessing (The US National Debt) Choose a period suggest 1776-1789 or 1834-1843 or ...
- 2) Baghot and The Bank of England ...
- 3) Boom and Bust in Seattle 1880-1900 or Chicago in the 1870s or Argentina in the 1890s
- 4) Would the US have been better off from 1879 to 1914 with silver?
- 5) JP Morgan as a central banker
- 6) The Bank of England in the Baring Crisis and the Federal Reserve System in the Fall of 1998
- 7) The Crisis of 1907
- 7a) Formation of the Federal Reserve System
- 8) The Financial Crisis of Summer 1914 ...
- 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
- 13a) The Florida land boom of the early 1920s
- 13b) Consumer durable finance 1920-1940
- 13c) The real estate boom of the 1920s and the financial crisis of the 1930s
- 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
- 49a) Did financial deregulation cause the Great Recession?
- 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, Greece, 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) Stanley Fischer as central banker and as a teacher of future central bankers
- 52i) Benjamin Strong, or Arthur Burns, Ben Bernanke or Mario Draghi
- 52j) Negative interest rates real nominal