

## **Professor Albrecht Ritschl**

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**October 22–25, 2018**

### **SPECIAL COURSE**

## **Financial Markets in the Global Economy: The History of Bubbles, Crashes and Inflations**

### **Course Outline**

This course introduces students to the history of monetary policy, of financial markets, and financial crises. The course covers the two waves of globalization of 1880-1914 and 1980-2008 and the de-globalization of finance that happened during the Great Depression. A long run perspective on the 2008 financial crisis and Eurozone crisis will be provided through several historical case studies of stock market crashes, banking panics, currency crises and sovereign defaults. Finally, the course explores how central banks responded to financial crises in different historical periods and covers the main evolutions in monetary policy over the last two hundred years.

The course puts strong emphasis on how institutional and political factors shape the process of financial globalization and on how the structure of the international monetary system affects the conduct of monetary policy and the response to financial crises.

This course is aimed for students willing to improve their understanding of money and financial markets through a historical approach. It is also highly relevant to financial market practitioners and policy makers interested in acquiring a long run perspective on current hot issues in money, banking, and finance.

### **Schedule**

#### **Monday, October 22**

09:30–16:00 (room 06)

#### **Tuesday, October 23**

09:30–13:00 (room 06) / 14:30–16:00 (room 02)

#### **Wednesday, October 24**

09:30–16:00 (room 02)

#### **Thursday, October 25**

09:30–16:00 (room 02)

### **Exam**

There will be a two-hour exam.

### **Pre-requisites**

Intermediate macroeconomics, microeconomics, and statistics.

### **Venue**

Leipzig University, Research Academy Leipzig, Wächterstr. 30, 04107 Leipzig. The rooms are on the ground floor of Villa Tillmanns.

### **Registration**

Please contact Monika Sprenger, until October 1, 2018 via e-mail: sprenger@wifa.uni-leipzig.de.

The course is limited to 25 participants.

## Detailed Program

### Monday, October 22

09:30–11:00 (room 06)

Break: 30 min

11:30–13:00 (room 06)

Break: 90 min

14:30–16:00 (room 06)

### Tuesday, October 23

09:30–11:00 (room 06)

Break: 30 min

11:30–13:00 (room 06)

Break: 90 min

14:30–16:00 (room 02)

### Wednesday, October 24

09:30–11:00 (room 02)

Break: 30 min

11:30–13:00 (room 02)

Break: 90 min

14:30–16:00 (room 02)

### Thursday, October 25

09:30–11:00 (room 02)

Break: 30 min

11:30–13:00 (room 02)

Break: 90 min

14:30–16:00 (room 02)

## Readings

Readings marked with a \* are compulsory. Other readings give students an opportunity to dig deeper if they so wish.

### Topic 1: From bulbs to Bitcoin - what are financial crises? A historical overview

Class question: Have financial crises become more frequent and more severe over time? What are possible reasons?

#### Readings

\*Minsky, H. (1986). *Stabilizing an unstable economy* (A Twentieth Century Fund report). New Haven; London: Yale University Press. Chapter 1.

\*Aliber, R., & Kindleberger, Charles P. (2015). *Introduction of Manias, panics and crashes: A history of financial crises* (Seventh ed.).

Reinhart, C. Reinhart, V. and Rogoff, K. (2012) "Public Debt Overhangs: Advanced-Economy Episodes Since 1800" *Journal of Economic Perspectives* 26 (3), 69-86.

Schularick, M. and Taylor, A. (2012). "Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870-2008" *American Economic Review* 102 (2), 1029- 1061.

### Topic 2: The long-run relationship between financial development and growth

Class question: Was financial development necessary for European economic development over centuries?

#### Readings

\*Bordo, M. D., & White, E. N. (1991). "A tale of two currencies: British and French finance during the Napoleonic Wars." *The Journal of Economic History*, 51 (2), 303-316.

\*Neal, L. (1994). "The finance of business during the Industrial Revolution" in Floud, R. and D. McCloskey (eds.). *The Economic History of Britain Since 1700: 1700-1860*. Cambridge: Cambridge University Press.

Quinn, S. (2001). "The Glorious Revolution's effect on English private finance: a microhistory, 1680-1705" *The Journal of Economic History*, 61 (3), 593-615.

### Topic 3: The first stock market bubbles

Class question: What can early bubbles tell us about nascent stock markets?

#### Readings

\*Garber, P.M. (1989), "Tulipmania", *Journal of Political Economy*, vol. 97, pp. 535-560.

\*Hoppit, J. (2002), "The Myths of the South Sea Bubble", *Transactions of the Royal Historical Society* 12, pp. 141-65.

Temin, P. and H-J. Voth (2004), "Riding the South Sea Bubble", *The American Economic Review*, vol. 94, pp. 1654-1668.

### Topic 4: The globalization of financial markets and sovereign debt crises, 1825-1913

Class question: What was the impact of the classical gold standard on the development of sovereign debt markets?

#### Readings

\*Bordo, M. and H. Rockoff (1996): "The Gold Standard as a 'Good Housekeeping Seal of Approval,'" *The Journal of Economic History*, 56, pp. 389-428.

\*Bordo, M., Eichengreen, B., Klingebiel, D., & Martinez-Peria, M. S. (2001). "Is the crisis problem growing more severe?," *Economic policy*, 16(32), 52-82.

Flandreau M., and F. Zumer (2004), *The Making of Global Finance, 1880-1913*, OECD: Development Centre.

### Topic 5: Banking crises in the UK and in the US before WW1

Class question: Did differences in banking systems between Britain and the US have an impact on the incidence of banking crises in these two countries?

#### Readings

\*Bordo, M. (1990), "The Lender of Last Resort: Alternative Views and Historical Experience", *Federal Reserve Bank of Richmond Economic Review*.

\*Moen, J. and E. Tallman (1990), "Lessons from the Panic of 1907", *Federal Reserve Bank of Atlanta Economic Review*, 75 (May/June 1990), pp. 2-13.

Wood, G. E. (2000). "The lender of last resort reconsidered", *Journal of Financial Services Research*, 18(2-3), 203-227.

### Topic 6: WWI and its financial consequences for Europe and America

Class question: Did WWI impact the British and American economies differently?

#### Readings

\*Eichengreen, B. (1992). "The Legacy of Hyperinflation" Chapter 5 in *Golden Fetters: The Gold Standard and the Great Depression*. Oxford: Oxford University Press.

\*Sargent, T. (1982): *The Ends of Four Big Inflations*, in: Hall, R., *Inflation: Causes and Effects*, Chicago (University of Chicago Press), pp. 41-98.

Rajan, R., & Ramcharan, R. (2015). "The anatomy of a credit crisis: The boom and bust in farm land prices in the United States in the 1920s." *American Economic Review*, 105(4), 1439-77.

### Topic 7: The 1929 stock market crash and US banking panics

Class question: Were the US banking panics in the 1930s due to a problem of illiquidity or insolvency?

#### Readings

\*Eichengreen, B. and Mitchener, K. (2003). "The Great Depression as a Credit Boom Gone Wrong." NBER Working Paper.

\*Calomiris, C. and J. Mason. (2003). "Fundamentals, Panics, and Bank Distress during the Great Depression." *The American Economic Review* 93:5, pp. 1615-47.

Postel-Vinay, N. (2016). "What caused Chicago bank failures in the Great Depression? A look at the 1920s." *The Journal of Economic History*, 76(2), 478-519.

## Topic 8: The European crisis

Class question: How did the 1931 banking crisis spread internationally?

### Readings

\*Accominotti, O. (2012). "London merchant banks, the central European panic, and the sterling crisis of 1931." *The Journal of Economic History*, 72(1), 1-43.

\*Schnabel, I. (2003), "The German Twin Crisis of 1931", *The Journal of Economic History*, vol.64(3), pp. 822-871

Ritschl, A. and S. Sarferaz (2014), "Currency versus Banking in the Financial Crisis of 1931", *International Economic Review*, vol.55, pp. 349-373

## Topic 9: Recovery from the Great Depression: what were the monetary and fiscal responses?

Class question: Was fiscal policy as important as monetary policy in helping recovery in Britain and in the US?

### Readings

\*Romer, C. (1992). "What Ended the Great Depression?" *The Journal of Economic History* 52:4, pp. 757-784.

\*Fishback, P. and Wallis, J. "What Was New About the New Deal?" Chapter 10 in Crafts, N. and Fearon P. (eds) 2013, in Crafts and Fearon (eds.), *The Great Depression of the 1930s: Lessons for Today*. Oxford: Oxford University Press.

Middleton, R. (2013), "Can Contractionary Fiscal Policy be Expansionary? Consolidation, Sustainability and Fiscal Policy Impact in Britain in the 1930s", Chapter 8 in Crafts and Fearon (eds.), *The Great Depression of the 1930s: Lessons for Today*. Oxford: Oxford University Press.

## Topic 10: Financial crises in emerging markets, 1980-2008

Class question: Are fixed exchange rates responsible for the Argentinian debt crisis in 2001?

### Readings

\*Diaz-Alejandro C. (1985), "Good-Bye Financial Repression, Hello Financial Crash", *Journal of Development Economics*, vol. 19, pp. 1-24.

\*Berg, A. (1999), "The Asia Crisis: Causes, Policy Responses and Outcomes", IMF Working Paper 99/138.

Radelet, S. and J. Sachs (1998), "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects", *Brookings Papers on Economic Activity*, vol. 29, pp. 1-90.

## Topic 11: The subprime crisis in historical perspective

Class question: Was the US subprime crisis a typical or an exceptional banking panic?

### Readings

\*Gorton, G. B. (2009). "Slapped in the Face by the Invisible Hand: Banking and the Panic of 2007." Paper prepared for the Federal Reserve Bank of Atlanta's 2009 Financial Markets Conference: Financial Innovation and Crisis, May 11-13, 2009.

\*Calomiris, C. (2010), "The Political Lessons of Depression-Era Banking Reform", *Oxford Review of Economic Policy* 26:3, pp. 540-560.

Jordà, Ò., Schularick, M., & Taylor, A. M. (2016). "The great mortgaging: housing finance, crises and business cycles." *Economic Policy*, 31(85), 107-152.

## Topic 12: The Euro crisis in historical perspective

Class question: Should the Euro be dismantled?

### Readings

\*Baldwin, R. et al. (2015). "Rebooting the Eurozone: Step 1—agreeing a Crisis narrative." CEPR Policy Insight No. 85.

\*Brunnermeier, M., James, H. and J.-P. Landau. (2016). "The Role of the Financial Sector" Chapter 9 in *The Euro and the Battle of Ideas*. Princeton: Princeton University Press.

Eichengreen, B., & Wyplosz, C. (2016). "Minimal Conditions for the Survival of the Euro." *Intereconomics*, 51(1), 24-28.