EH306: Monetary and Financial History Since 1750
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Course content
What factors drive capital market integration in the long-run? Why do financial crises arise and how should they be solved? How do institutions and policies influence the process of financial globalisation and the outcome of financial crises? This course explores these issues by examining major developments on financial markets from the late 18th century to the recent financial crisis. The first part examines the emergence of an integrated international financial system during the 19th century. The second part explores the monetary reconstruction that followed WWI and the causes of interwar financial instability and the Great Depression. Finally, a third part examines major developments in the international monetary system from the Bretton Woods conference to the recent financial crisis. The purpose of the course is to present a long-run view on major phenomena in financial economics (eg. financial globalisation, exchange rate regimes, banking panics, currency crises, lender of last resort policies etc.) as well as to provide historical perspectives to modern policy debates surrounding the recent financial crisis.

Assessment
Three hour unseen examination in the Summer Term (100%).

Formative coursework
During the year, students will prepare three essays or equivalent pieces of written work, and make classroom presentations. However, none of these will form part of the formal examination grade. The readings provided for every topic below serve as guidance for individual preparation.

Course outline

Part I. 1750-1914

1. Introduction and overview
   - Group work (in class)
   Read chapter 2 of Kindleberger’s book on the history of financial crises and answer the following questions: - what are the main characteristics common to all financial crises according to the author? - how does the 2007-2011 financial crisis fit into the model?
   - Reading:

2. International capital markets in the 18th century
   Key notions: market integration, market efficiency, bill of exchange
   - Essay question:
Did financial development contribute to economic growth in the 18th century?
- Presentation topic:
Were international capital markets integrated in the 18th century?

- Readings:

3. The classical gold standard, 1870-1913
Key notions: price-specie flow mechanism, gold parity, gold points, “rules of the game”
- Essay question:
What were the benefits and costs of the gold standard system?
- Presentation topic:
What room was left for monetary policy under the gold standard?
- Readings:
(http://www.colby.edu/economics/faculty/jmlong/ec333/hume.pdf)
(http://blogs.ft.com/economistsforum/2012/08/is-the-euro-the-21st-century-gold-standard/#axzz24ArTWVrO)

4. Global financial integration, 1880-1913
Key notions: sovereign debt, sovereign bond spread, “good housekeeping seal of approval”
- Essay question:
- Presentation topic:
Was the gold standard the cause of global capital market integration in 1880-1913?
- Readings:
5. The British Empire and global capital market integration, 1880-1913

Key notions: Empire Effect, dependent colonies, self-governing colonies

- Essay question:
What was the effect of the British Empire on colonies’ borrowing costs? How would you rate interest convergence in the Eurozone during 2000-2008 in the light of this evidence?

- Presentation topic:
Did British colonies enjoy privileged access to global capital markets in the 19th century?

- Readings:


Key notions: stock market crash, currency crisis, sovereign debt crisis, banking crisis

- Essay question:
How has the nature of financial crises evolved since the late 19th century?

- Presentation topic:
Why were financial crises less frequent under the classical gold standard than in 1973-2012?

- Readings:

7. Banking panics in the United States, 1863-1913

Key notions: bank run, currency-deposit ratio, random-withdrawal theory, asymmetric information theory

- Essay question:
Would banking panics have been less frequent in the US in 1863-1913 in the presence of a central bank?

- Presentation topic:
What were the main causes of banking panics in the US during 1863-1913?

- Readings:

8. Lender of Last Resort: the Bank of England’s financial stability policy, 1840-1913
Key notions: lender of last resort, illiquidity, insolvency, penalty rate
- Essay question:
What is the rationale behind Bagehot’s rule?
- Presentation topic:
How did the Bank of England respond to banking panics in the 19th century?
- Readings:
Michael Bordo (1990), "The Lender of Last Resort: Alternative Views and Historical Experience", Federal Reserve Bank of Richmond Economic Review

Part II. 1919-1945

9. The return to the gold standard, 1919-1928
Key notions: hyperinflation, currency stabilization, gold exchange standard
- Essay question:
Compare the interwar gold exchange standard to the classical gold standard. Which system worked better and why?
- Presentation topic:
Was it wise for the UK to return to the gold standard in 1925?
- Readings:

10. Monetary policy, the gold standard and the Great Depression
Key notions: monetary contraction, deflation, beggar-thy-neighbor
- Essay question:
Why did central banks fail to prevent a deepening of the Great Depression?
- Presentation topic:
What caused the global deflation of the 1930s?
- Readings:

**11. Did France cause the Great Depression?**
*Key notions: sterilization, gold sink, strategic undervaluation*
Two-hour class debate. No student presentation this week.
- Readings:

**12. The 1929 stock market crash**
*Key notions: asset bubble, stock market volatility*
- Essay question:
  Were there rational causes to the US stock market boom and crash of 1929?
- Presentation topic:
  Did the stock market crash of 1929 cause the Great Depression?
- Readings:

**13. The 1931 global financial crisis**
*Key notions: twin crisis, contagion, bankers’ acceptances*
- Essay question:
  Was the 1931 financial crisis a banking or a currency crisis?
- Presentation topic:
How did the 1931 financial crisis propagate internationally?
- Readings:

14. Banking panics in the United States during the 1930s
Key notions: bank run, illiquidity, insolvency, deposit insurance, Glass-Steagall Act
- Essay question:
Through which channels did banking panics affect economic activity in the US during the 1930s?
- Presentation topic:
Were the US banking panics of the 1930s due to illiquidity or insolvency?
- Readings:

Part III. 1945-2011

15. The Bretton Woods System, 1944-1973
Key notions: current account, capital controls, SDR, dollar gap, Triffin dilemma
- Essay question:
Why did the Bretton Woods system collapse?
- Presentation topic:
How did the Bretton Woods system address the failures of the interwar gold standard? Was it successful?
- Readings:

Key notions: European Exchange Rate Mechanism, European Monetary System
- Essay question:
  What caused the EMS crisis of 1992? What are the similarities and differences between this episode and the current crisis in the eurozone?
- Presentation topic:
  Why did European countries opt for monetary integration after Bretton Woods?
- Readings:
  Eichengreen, B. (1996), Globalizing Capital, chapters 5, “From Floating to Monetary Unification”, pp. 136-175

Key notions: sudden stop, hard peg, currency board
- Essay question:
  Why has financial liberalisation been followed by financial instability in Latin America?
- Presentation topic:
  Are fixed exchange rates responsible for the Argentinean debt crisis of 2001?
- Readings:

18. The East Asian Financial Crisis of 1997/98 and contagion to emerging markets
Key notions: self-fulfilling panics, contagion, international lender of last resort
- Essay question:
  Why are some financial crises contagious and others not?
- Presentation topic:
  Was the East Asian financial crisis of 1997/1998 self-fulfilling?
- Readings:

Key notions: securitization, subprime, shadow banking system, Credit Default Swaps
- Essay question:
Through which mechanisms did the US mortgage crisis transform into a general banking crisis?
- Presentation topic:
Was the 2007-2008 crisis typical or exceptional?
- Readings:

20. The European financial crisis, 2008-2012
Key notions: debt dynamics, European Financial Stability Facility, debt haircut
- Essay question:
What are possible similarities/differences between the current Eurozone debt crisis and earlier crises we have studied?
- Presentation topics:
Was the response of the EU/ECB/IMF troika to the European debt crisis optimal?
- Readings
Wyplosz C. (2012), “Thanks to the ECB”, VoxEU.org, 30 July 2012. To be completed (crisis is not over…)