

University of California, Davis
Winter 2012
Economics 210B
The Economic History of Financial Crises

Instructor: Christopher M. Meissner

Time and Location: TR 1210-2:00 Wellman 123

Contact details:

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Office Hours: Please refer to my website for this quarter's office hours. Also note, I follow a sign-up system. If you want to come to office hours try to sign up for a slot on the sign-up list on my door in advance.

Course Description

This course is a primer on financial crises. Financial crises come in many forms. Their causes and effects on the economy interesting areas of frontier research. There are many directions from which to come at the issue. We will plan on reading a mix of theoretical and empirical papers on crises. The focus on the empirical side will be from the long-run (i.e., history!). Why history? Crises are infrequent events and therefore a longer term perspective is necessary. We will look at banking crises, currency crises, debt crises, and balance of payment crises. We will also look at selected topics in crises including:

Information

This course is intended for graduate students in economics and related fields. We will rely on having familiarity with the basics of international finance, macroeconomics and applied econometric methods. The course will meet twice a week on Tuesdays and Thursdays. I would like the course to follow a seminar format with lively discussion and exchange. Your job will be to attend class regularly and do the reading. I will ask that you do a presentation of one of the papers fairly frequently.

Readings

A few readings marked with a * will be made available for photocopying in advance of each class or will be distributed when needed. Readings for each lecture should be read in advance to make for a constructive dialog. Again, students will, on a rotating basis, be asked to present a summary of selected papers during class.

Grading

Paper: 75%

In-class presentations of readings and participation: 25%

Paper

You will be required to write a paper for this class. The primary goal is to get in the practice of writing an academic paper of article length suitable for an academic journal (and your dissertation!). In expectation the paper will be 20 pages, but around that mean there will be a variance in outcomes depending on the topic and density etc. Papers can begin with replications and extensions of existing papers but some originality in the final product is desirable. Finding a topic can be difficult, so early and frequent consultation with the instructor is recommended. A one page summary of the paper topic will be due in the second week of February. Further discussions may need to take place to hone the idea. I welcome further consultations. We will reserve time in class for presentations of the work in progress and for feedback.

Reading List

Most readings have hyperlinks that are accessible within the UC Davis domain or via your VPN from off-campus. Some readings are not available online. Those are marked with a * and will be made available to students before the class as appropriate.

I. The Big Picture:

Albert Fishlow “[Lessons from the Past: Capital Markets During the 19th Century and the Interwar Period](#)” International Organization, Vol. 39, No. 3 (Summer, 1985), pp. 383-439

Michael Bordo “The Globalization of International Financial Markets: What Can History Teach Us?” Rutgers’s Mimeo.*

Obstfeld, Maurice and Alan M. Taylor “[Globalization and Capital Markets](#)” NBER working paper 8846

Allen, F. and Gale, D. “[An Introduction to Financial Crises](#)” Wharton School working paper.

Neal, Larry [Crises in the Global Economy from Tulips to Today](#) in *Globalization in Historical Perspective*. Bordo, M., Taylor, A.M. and Williamson, J.G. eds. Pp. 473-514.

Optional Reading:

Allen, F. and D. Gale (2000), "[Bubbles and Crises](#)", *Economic Journal* 110: 236-256.

II. The Long Run Facts

Bordo, M. Eichengreen, B, Klingebiel, D., Martinez-Peria, M.S. 2001. "[Is the Crisis Problem Growing More Severe?](#)" *Economic Policy*, 16 (32), 53-82.

Jordà, O., Schularick, M. and Taylor, A.M.T 2011. [When Credit Bites Back: Leverage, Business Cycles and Crises](#). NBER Working paper 17621.

Abbas, S.A, Belhocine, N., ElGanainy, A., Horton, M "[A Historical Public Debt Database](#)" IMF working paper 10/245

Reinhart, Carmen, Rogoff, K. "[Banking Crises: An Equal Opportunity Menace](#)"

Reinhart, Carmen, Rogoff, K. 2008. [This Time is Different: A Panoramic View of Eight Centuries of Financial Crises](#).

III. Banking Panics

Diamond, Douglas and Philip Dybvig, "[Bank Runs, Deposit Insurance, and Liquidity](#)", *Journal of Political Economy* 91, 1983.

Charles W. Calomiris and R. Glenn Hubbard "[Price Flexibility, Credit Availability, and Economic Fluctuations: Evidence from the United States, 1894-1909](#)" *The Quarterly Journal of Economics*, Vol. 104, No. 3 (Aug., 1989), pp. 429-452

Ó Gráda, C. Kelly, Morgan "[Market Contagion Evidence from the Panics of 1854 and 1857](#)" *American Economic Review* 90 (5). 1110-1124.

Additional Reading (Optional):

O Grada, Cormac and Eugene N. White, 2002, "[Who Panics During Panics? Evidence from a Nineteenth Century Savings Bank](#)", *American Economic Review*.

Cormac Ó Gráda and Eugene N. White “[The Panics of 1854 and 1857: A View from the Emigrant Industrial Savings Bank](#)” *The Journal of Economic History*, Volume 63, Issue 01, March 2003, pp 213-240

Jalil, Andrew “[A NEW HISTORY OF BANKING PANICS IN THE UNITED STATES, 1825-1929: CONSTRUCTION AND IMPLICATIONS](#)” unpublished mimeo Reed College.

IV. Currency Crises

Krugman, P. 1979. “[A Model of Balance of Payments Crises](#)” *Journal of Money, Credit and Banking* 11 (3) pp. 311-325. ***(Flood and Garber)

Obstfeld, M. 1996. “[Models of Currency Crises with self-fulfilling features.](#)” *European Economic Review*. 40 (3-5) pp. 1037-1047.

Eichengreen, B. and Jeanne, O. [Currency Crisis and Unemployment: Sterling 1931](#) in Krugman, P. ed. *Currency Crises* pp. 7-46. Univ. of Chicago Press, Chicago

Kaminsky, G. and Reinhart, c. 1999, “[The Twin Crises: The Causes of Banking and Balance-of-Payments Problems](#)”, *American Economic Review*.89 (3) 473-500.

Optional Reading:

*Allen, F. Gale, D. “[Optimal Currency Crises](#)” *Carnegie-Rochester Series on Public Policy* 53 (1) pp. 177-230.

V. Sudden Stops and the Balance of Payments

Calvo, G. A. (1998), “[Capital Flows and Capital-Market Crises: The Simple Economics of Sudden Stops](#),” *Journal of Applied Economics*, 1(1), 35–54.

Calvo, G. and Mendoza, E. 2000. “[Rational Contagion and the globalization of securities markets](#)” *Journal of International Economics* 51 (1) pp. 79-113.

Aguiar, Mark and Gita Gopinath (2007) “[Emerging Market Business Cycles: The Cycle is the Trend.](#)” *Journal of Political Economy*, Volume 115(1).

Bordo, M., Cavallo, A. and Meissner C.M. [Sudden Stops: Determinants and Output Effects in the First Era of Globalization, 1880-1913](#) (2010) *Journal of Development Economics*. 91 (2) pp. 227-241.

Catão, L. (2005). "[Sudden Stops and Currency Drops: A Historical Look.](#)" In “[The Decline of Latin American Economies: Growth, Institutions, and Crises](#)” Sebastian Edwards, Gerardo Esquivel and Graciela Márquez eds. Pp. 243-289

Optional Reading:

Kehoe, T.J. and Ruhl, K. 2009. "[Sudden Stops, Sectoral Reallocations, and the Real Exchange Rate](#)" Journal of Development Economics 89 (2) 235-249.

VI. Debt Crises

Sanderlis: Guido, 2008. "[Sovereign defaults: Information, investment and credit](#)" Journal of International Economics 76 (2). 267-275.

Tomz, Michael and Wright, Mark, "[Sovereign Theft: Theory and Evidence about Sovereign Default and Expropriation](#)" in The Natural Resources Trap: Private Investment without Public Commitment, eds. William Hogan and Federico Sturzenegger, Cambridge, MA: MIT Press, 2010.

Kaminsky, G. and Pereira, A. [The debt crisis: lessons of the 1980s for the 1990s](#)" Journal of Development Economics 50. Pp. 1-24.

Mitchener, K. and M. Weidenmier, "[Supersanctions and Sovereign Debt Repayment](#)", Journal of International Money and Finance 29 (1) pp. 19-36.

Optional Readings:

Eaton, Jonathan and Gersovitz, Mark. "[Debt with Potential Repudiation: Theory and Estimation.](#)" Review of Economic Studies, April 1981, 48(2), pp. 289–309.

Bulow, Jeremy, and Kenneth Rogoff. 1989b. "[Sovereign Debt: Is to Forgive to Forget?](#)" American Economic Review 79:1, 43-50.

Kletzer, K. Wright, B. "[Sovereign Debt as Intertemporal Barter](#)" American Economic Review 90 (3) pp. 621-639.

Sachs, J., "Managing the LDC Debt Crisis", Brookings Papers on Economic Activity 1986.

VII. Financial Manias and Credit

Minsky, Hyman P. (2008). [Stabilizing an Unstable Economy](#). Mc Graw Hill. (First printing in 1986 by Yale University Press). Read Ch. 9 skim other parts

Borio, C. and White, W. W. 2003. [Whither monetary and financial stability? The implications of evolving policy regimes.](#) in Monetary Policy and Uncertainty: Adapting to a Changing Economy: A Symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, 28-30 August, pp 131-211.

Eichengreen, B., Mitchener, K. 2004. [The Great Depression as a Credit Boom Gone Wrong.](#)” Research in Economic History. 22

VIII. **Older Crises:**

Isabel Schnabel, Hyun Shin, "[Liquidity and Contagion: The Crisis of 1763](#)", Journal of the European Economic Association.

Temin, Peter and Hans-Joachim Voth. "[Riding the South Sea Bubble](#)". American Economic Review 94, 2004.

Dale, R.S., Johnson, J.E.V. and L. Tang (May 2005). "[Financial Markets can go mad : Evidence of irrational behaviour during the South Sea Bubble.](#)" The Economic History Review, LVIII, 2, 233-271.

IX. **Early to mid-19th Century**

Wallis, JJ "[What Caused the Crisis of 1839?](#)" NBER working paper ho133.

JJ Wallis, Richard Sylla and Arthur Grinath III "[Sovereign Debt and Repudiation: The Emerging Market Debt Crisis in the U.S. States, 1839-1843](#)" NBER working paper 10753.

Flandreau, M. and Flores, J. [Bonds and Brands: Foundations of Sovereign Debt Markets, 1820-1830.](#) Journal of Economic History 69. Pp. 646-684.

Vizcarra, Catalina "[Guano, Credible Commitments, and Sovereign Debt Repayment in Nineteenth-Century Peru](#)" Journal of Economic History 69 pp. 358-387.

Flandreau, M and Ugolini, S. "[Where it all began: Lending of Last Resort and the Bank of England During the Overend Gurney Panic of 1866](#)" mimeo Graduate Institute of Geneva.

X. **Contagion: The 1890s as a Global Crisis**

Forbes, Roberto Rigobon, "[No Contagion, Only Interdependence: Measuring Stock Market Co-Movements](#)", Journal of Finance LVII (5, October). pgs. 2223-2261.

Eichengreen, B. 1999. [The Baring Crisis in a Mexican Mirror](#) International Political Science Review 20 (3)

Mitchener, Kris James & Weidenmier, Marc D., 2008. "[The Baring Crisis and the Great Latin American Meltdown of the 1890s](#)," The Journal of Economic History, Cambridge University Press, vol. 68(02), pages 462-500, June.

Weidenmier, M. and Odell, K. "[Real Shock, Monetary Aftershock: The 1906 San Francisco Earthquake and the Panic of 1907](#)" Journal of Economic History 64 (4) pp. 1002-1027.

Optional Reading:

Calomiris, Charlie "[Greenback Resumption and Silver Risk: The Economics and Politics of Monetary Regime Change in the United States, 1862-1900](#)" NBER working paper 4166

XI. The Crisis of 1907

Joseph H. Davis & Christopher Hanes & Paul W. Rhode, 2009. "[Harvests and Business Cycles in Nineteenth-Century America](#)," The Quarterly Journal of Economics, MIT Press, vol. 124(4), pages 1675-1727, November.

Jon Moen and Ellis W. Tallman "[The Bank Panic of 1907: The Role of Trust Companies](#)" The Journal of Economic History, Vol. 52, No. 3 (Sep., 1992), pp. 611-630.

***Friedman and Schwartz

*Noyes, Alexander 1909 "A Year after the Panic of 1907" Quarterly Journal of Economics 23 (2) pp. 185-212.

XII. The Great Depression in America and in International Perspective

Milton Friedman and Anna J. Schwartz, A Monetary History of the United States 1867 to 1960. Princeton: Princeton University Press. Chapter 7.*

Ben Bernanke (1995). "[The Macroeconomics of the Great Depression: A Comparative Approach](#)," Journal of Money, Credit, and Banking, February 1995, vol. 27, no. 1, pp. 1-28.

Calomiris, Charles and Joseph R. Mason, 2003, [Fundamentals, Panics, and Bank Distress During the Depression](#), *American Economic Review* 93: 1615-1647

Eichengreen, Barry, and Kris Mitchener, 2003. "[The Great Depression as a credit boom gone wrong](#)", BIS conference paper.

Richardson, Gary and William Troost (forthcoming) "[Monetary Intervention Mitigated Banking Panics During The Great Depression? Quasi-Experimental Evidence From The Federal Reserve District Border In Mississippi, 1929 To 1933](#)" *Journal of Political Economy*.

Optional Reading:

*Bernanke, Ben, 1983. "[Nonmonetary Effects of the Financial Crisis in Propagation of the Great Depression](#)", *American Economic Review* 73: 257-276

XIII. The Great Depression in International Perspective

Eichengreen, B. (2002), "[Still Fettered After All These Years.](#)" *NBER Working Paper 9276*.

Grossman, Richard S. 1994. "[The Shoe That Didn't Drop: Explaining Banking Stability during the Great Depression.](#)" *Journal of Economic History* 54, no. 3

Eichengreen, Barry and Portes, Richard. "After the Deluge: Default, Negotiation, and Readjustment during the Interwar Years," in Barry Eichengreen and Peter H. Lindert, eds., *The international debt crisis in historical perspective*. Cambridge, MA: MIT Press, 1989a, pp. 12–47.

Schnabel, Isabel, 2004. "[The German Twin Crisis of 1931](#)", *Journal of Economic History* 64: 822-871

Optional Reading:

Jorgenson, E. and Sachs, J. "[Default and Renegotiation](#)" NBER WP. 2636.

XIV. Newly Mobile Capital and the 1990s

Paul Krugman, 1999, "[Analytical Afterthoughts on the Asian Crisis](#)," mimeo.

Krugman, Paul 1999. "[Balance Sheets, The Transfer Problem and Financial Crises](#)"

Caballero, Ricardo and Arvind Krishnamurthy (2003) "[Excessive Dollar Debt: Financial Development and Underinsurance](#)" *Journal of Finance*, LVIII 867-893.

Radelet, S. and Sachs, J. "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects." *Brookings Papers on Economic Activity* 1998.

Guillermo Perry and Luis Servén "[The Anatomy of a Multiple Crisis: Why was Argentina Special and What can we Learn from it](#)" NBER Project on Exchange Rate Crises in Emerging Markets (2002)

XV. Inequality and Financial Crises

Rajan, R. [Fault Lines](#)***

Kumhof and Ranciere “[Inequality, Leverage and Crises](#)” IMF WP

*Bordo, M.D., Meissner, C.M. Does Inequality Lead to Financial Crisis?

XVI. Capital Flows, Financial Crises and Growth

Ranci re, Romain, Aaron Tornell and Frank Westermann (2008) “[Systemic Crises and Growth](#)” *Quarterly Journal of Economics* vol. 123(1) pp. 359-406.

Eichengreen, Barry and David Leblang (2003) “[Capital Account Liberalization And Growth: Was Mr. Mahathir Right?](#),” *International Journal of Finance and Economics*, v8 (3, Jul), pp. 205-224.

* Bordo, M. and Meissner, C.M. Foreign Capital, Financial Crises and Incomes in the First Era of Globalization (2011) *European Review of Economic History* vol. 15 (1) pp. 61-91.

XVII. The Aftermath of Financial Crises

Hutchison, M., and N. Ilan, 2005, “[How Bad Are Twins? Output Costs of Currency and Banking Crises](#),” *Journal of Money, Credit and Banking*, Vol. 37(4), pp. 725-52.

Borensztein, E. Panizza, U “[The Costs of Sovereign Default](#)” IMF Working paper 08/238.

Qian, R, Reinhart, C. and Rogoff, K. “[ON GRADUATION FROM DEFAULT, INFLATION AND BANKING CRISIS: ELUSIVE OR ILLUSION?](#)” NBER working paper 16168.

Aguiar, M. Discussion of Qian, Reinhart, and Rogoff’s “[On Graduation from Default, Inflation and Banking Crises: Elusive or Illusion](#)”

Bordo, M. “[Growing up to financial stability](#)” NBER wp. 12993.

Optional Reading:

Furceri, D. and Zdzienicka, A. “[How Costly are Debt Crises?](#)” IMF Working paper 11/280.

XVIII & XIX. Paper presentations