Syllabus

Money, Banking, and Financial Crisis:
A historical North American perspective

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Instructor:
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Office hours:
Thursday, 4pm – 6pm, and upon request, room 139, JFKI (behind the red library door)

Program:
Bachelor North American Studies, specialization economics
John-F-Kennedy Institute, Free University Berlin

Semester:
winter term 2018 / 2019

Date & Location:
Tuesday, 12pm – 2pm, room 201, JFKI, Lansstr. 7/9

Content:
This undergraduate seminar is on American financial history with a special focus on financial crises. We will discuss the monetary and financial developments in the United States from colonial times until today. While during most sessions we will discuss a specific period of time in American financial history there will also be theory blocks that will introduce us to the principal economics of money, banking, the theory of financial crises, and modern macroeconomic developments that emerged after the financial crisis of 2007-08.
The goal of the course is to equip students with a profound and encompassing understanding of American financial history. The students will learn how modern economic institutions like paper money, payment systems, or central banks, emerged organically and where the historical specificities of the United States lie.

Procedures:
The seminar will take place on a weekly basis. The one-and-a-half hour sessions will have two student presentations of 15 minutes each, followed by 30 minutes of discussion. Active participation is mandatory, and each student will be required to present a specific topic during class over the course of the semester. These topics are marked by “presentation” in the syllabus and require extensive preparation. Students shall summarize the contents of the material and embed them into the broader historical context. Students are free to choose their presentation style and are encouraged to discuss their ideas with the instructor. Active (!) participation and one presentation are sufficient to successfully complete the course on an attendance basis.

Students who wish to take the course on an examination basis further will have to hand in a paper of 12-15 pages at the end of the semester. Each session is accompanied by a wide range of exemplary essay question from which the students may choose. The instructor also highly encourages students to find a topic of individual interest that is related to the content of the course. The topic of the essay should be different from the topic of the presentation.

In preparation for each session every attending student is required to have read the texts flagged as “reading” in the syllabus.

Examination:
The final grade will depend on active participation (15%), the quality of the presentation (15%) and a written paper (12-15 pages) on one of the topics of the course (70%). All details will be discussed at the first meeting.

Depending on the total number of participants students will further have the opportunity to prepare a second presentation to gain a bonus (one grade step up) for the grading of the paper.

Active participation:
To pass the course all students are required to attend class and actively participate in the discussions. Students may miss up to three sessions over the course of the semester.

Presentation:
All students must give a 15-minutes presentation on one of the session’s topics. The presentation should begin with a general placement of the topic into the historical period and then present the content of the respective paper(s). The class will use the presentation as an
input to start a discussion. Students who wish to write an essay and take the course on an examination basis can present a second paper and gain a bonus for their papers’s grade (one grade step up).

Paper:

Each session will have specific essay questions from which the students are free to choose. Students are also encouraged to find an individual topic of interest that is related to the general topic of the course. In any case should the topic of the essay first be discussed with the instructor. The essay must be handed in by 31 March 2018 (different deadlines may apply to exchange students). It should be written in the font Times New Roman, with font size 12pt, 1.5 line spacing, and encompass around 12-15 pages.

General literature:


Supplementary general literature:


Schedule:

16/10/2018: Organizational issues and introduction into the topic

- What to expect from the course
- What is expected from the students
- Allocation of the first few presentations
- Introduction to the topic of the course
23/10/2018: **THEORY**: Money, credit, and banking

- Bank's balance sheets, hierarchy and functions of money, fundamentals of payment systems, liquidity vs. solvency, fundamentals of lending and borrowing
- Literature
- **Presentation 1**: Mishkin (2016), ch. 3; Mehrling (2016), ch. 2 (on money)
- **Presentation 2**: Mishkin (2016), ch. 9, pp. 232-247; Mehrling (2016), ch. 4, pp. 22-24 & 28-31 (on banking and balance sheets)
- Sample essay questions
  - Briefly compare various theories of money of different schools of thought.
  - How was money invented? What came first – money or credit? And did money really emerge from a pure barter economy?
  - How does the modern payment system work in detail?
  - How do the concepts of liquidity and solvency relate to financial stability? Is one more important than the other?
  - Is Bitcoin money? Are crypto currencies the currency of the future?
  - What gives money its value? Relate to the debate on chartalism and metallism.

30/10/2018: Colonial times, revolution, and the new nation

- **1700-1837**
- Literature
- Sample essay questions
  - How well does the quantity theory of money apply to the paper money of the American colonies and to American war finance during the revolution?
How do current discussions about monetary policy and trade imbalances resemble mercantilist economic thinking?

06/11/2018: NO CLASS

13/11/2018: Free banking and the Civil War

- 1837-1862, includes crises of 1837 and 1857
- Literature
  - Presentation 2: Mehrling, P. (2016). The Economics of Money and Banking. Lecture notes, Ch. 3, pp. 15-18 (act 1, union Civil War finance)
- Sample essay questions
  - What elements of the monetary system of the Greenback era survived into modern times and marked a fundamental change in U.S. financial history?
  - Could the Confederation have won the war if had been able to attract more international funding?
  - Describe, analyze, and compare the crises of 1837 and 1857.

20/11/2018: The National Banking Acts, the Gilded Age, & the Classical Gold Standard

- 1863-1900, included crises of 1873 and 1893
- Literature


- Sample essay questions
  - What were the benefits and costs of the gold standard system?
  - How did monetary policy look like under the gold standard?
  - What were the main causes of banking panics in the US during 1863-1913?
  - Describe and analyze the financial crises of 1873 and 1893.
  - What does history teach us about the usefulness and right size of reserve requirements?


- Literature

- Sample essay questions
  - What are the causes and consequences of currency crises? What policy measures help to prevent or mitigate them?
  - What are the causes and consequences of public debt crises? What policy measures help to prevent or mitigate them?
How have financial crises changed over the course of American financial history? And what remained the same?

What distinguishes Minsky's financial instability hypothesis from other theories of financial crises?

04/12/2018: The panic of 1907 and the founding of the FED

- 1900-1913, includes crisis of 1907
- Literature
  - Presentation 2: Mehrling, P. (2016). The Economics of Money and Banking. Lecture notes, Ch. 3, pp. 20-21 (act 3)
- Sample essay questions
  - How did the payment system work before the founding of the FED?
  - How does the history of central banking in the UK differ from the one in the US? What are the reasons for the divergent development?

11/12/2018: World War I and the roaring twenties

- 1914-1928
- Literature


• Sample essay questions
  o Compare various theories of asset price bubbles. How do they apply to the stock market?
  o How could an economically so interconnected world plunge into war? Who, financially speaking, where the winners and losers of the war, both in the U.S., and internationally?
  o What was the contribution of consumer finance to the stock market and credit boom of the roaring twenties?

18/12/2018: The stock market crash of 1929, the Great Depression, and the new Deal

• 1929-1938, includes crisis of 1929-1933

• Literature

• Sample essay question
  o What are the common theories that explain the Great Depression?
  o What was the FED's role in the Great Depression? What could it have done better from a modern point of view?
o How does Minsky’s financial instability hypothesis apply to the crises of 1929-1933?
o How does Irving Fisher’s theory of debt-deflation relate to the Great Depression? Also apply his theory to the Great Recession.
o Discuss the separation of commercial and investment banking of the Glass-Steagall act. Apply the proposition to the present banking system. Develop arguments in support and against a renewal of Glass-Stegall.

25/12/2018: CHRISTMAS BREAK

01/01/2019: CHRISTMAS BREAK

08/01/2018: World War II and Bretton Woods

- 1939-1971
- Literature
Sample essay questions

- How did the Bretton Woods system address the failures of the interwar gold standard? Was it successful?
- What elements of the Bretton Woods system survived into present times?
- Discuss the various proposals for a new international monetary order that were brought forth at the Bretton Woods conference.

15/01/2019: The Great Inflation, deregulation, and financialization

- 1972-2000, includes savings and loans crisis of 1984-1990s

Literature

- Presentation 1: Mehrling, P. (2016). The Economics of Money and Banking. Lecture notes, Ch. 14, pp. 104-105 (act 3)
o **Presentation 3**: Mishkin, F. S. (2016). The economics of money, banking and financial markets. 11th ed., ch. 10 web appendix 1 (on the 1980s Savings and Loan Crisis)


- **Sample essay questions**
  - What were the causes of the Great Inflation? Discuss the various theories in the literature. Which one do you find most convincing? And why?
  - Explain monetarism and relate its rise to the monetary developments during the Great Inflation.
  - Analyze the Savings and Loans crisis. Which theories of financial crises can be used to explain it?
  - Does the United States today need a new Treasury-FED-accord?

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**22/01/2019: The Great Moderation and the Dotcom bubble**

- **2001-2006**

- **Literature**
  - **THEORY**: How to write a term paper?
• Sample essay questions
  o What caused the Dotcom Bubble? Use theories of financial crises and asset bubbles to explain why it did not result in a systemic banking crisis.
  o Compare the Great Moderation to the Roaring Twenties. Where do you see similarities and differences?
  o Was the Fed to blame for the housing price bubble that led to the Global Financial Crisis of 2007-09?

29/01/2019: The subprime bubble and the Global Financial Crisis of 2007-09

• 2007-2009
• Literature

• Sample essay questions
  o Compare the financial and banking systems of the U.S. and Canada. Why is Canada’s system more stable and how did Canada prevent being hit from the crisis in 2007-09?
  o Compare the Global Financial Crisis of 2007-09 to the U.S. financial panic of 1893.
  o Analyze the Global Financial Crisis of 2007-09. What were its causes? Why did (almost) no one see it coming? Relate to the macroeconomic thinking of the time?
o Explain how the Global Financial Crisis of 2007-09 spread across the globe. How were some countries that did neither exhibit over-indebtedness nor a real estate bubble still affected?
o Which economies were not affected by the Global Financial Crisis of 2007-09 and why?

05/02/2019: THEORY: The Federal Reserve today, financial cycles, and balance-sheet recessions

- Literature

- Sample essay questions
  - Discuss whether central banks should try to hinder the build-up of asset bubbles.
  - Describe how macroeconomics has changed after the recent crisis. Do you think a change was necessary? And if so, do you think it has changed sufficiently?
  - Relate the modern empirical concept of the financial cycle to Minsky’s financial instability hypothesis.
  - Compare the institutional structure and monetary policy tools of the Federal Reserve with the European Central Bank.
  - Debate whether central banks should be independent. And if yes, how much?

12/02/2019: Current challenges and learning from history: populism, deleveraging, quantitative easing and predicting crises

- 2010-2019
- Literature


• **Sample essay question**

  - How could the next financial crisis look like?
  - Use financial history to assess the long-term effects of quantitative easing.
  - Does the U.S. need to deleverage? Why? Why not?
  - When and how often do deleveragings occur? What does the financial history of the United States tell us?
  - Do you think we should reform our monetary and/or banking system? Discuss and compare reform proposals.
  - Do you think we are observing another high-tech bubble? Why? Or, why not?
  - What is the real cause for the persistent low interest rates around the globe?
  - Are current account deficits really debts that a nation must repay?
  - What regulatory changes have been made in response to the recent financial crisis? How do you evaluate their effectiveness?
  - What are historically the political and societal consequences of financial crises?
  - How can financial history help us to better understand financial instability?