

International Economics Development Economics

Academic year 2019-2020

History of Financial Crises

EI068 - Printemps - 6 ECTS

Wednesday 10h15 - 12h00

Course Description

The subprime crisis of 2008 and the debt and banking crises in Europe have renewed the interest of policymakers in history. Past experiences of financial crises may provide useful tools to understand the challenges stemming from the fragilities in the financial sector. Historical approaches have also been used in reforms to prevent future financial meltdowns. This course presents some of the main issues that have been analysed in the academic literature and that prevail in the public debate. We will look in detail at certain episodes of the history of financial crises. Emphasis will be given to the organizational structure of financial markets, to the role of international organizations and to financial actors (regulators, rating agencies and financial intermediaries), consistently considering the broad historical context.

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After class and only by prior appointment

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Syllabus

The course is divided into three blocks. The first block includes an introductory session that provides a general perspective on the history of financial crises. The remaining sessions present some basic concepts from financial and economic theory and describe the crises of the 18th and 19th century. The second block focuses on the financial crises of the early 20th century and the interwar period. The topics to be discussed focus on international capital flows, monetary arrangements, the historical role of central banks, the emergence of regulation and the impact of new agents such as rating agencies or multilateral organizations. The third block revisits the financial crises from the 1980s to the present. We look at the political, economic and financial variables that explain the crises.

Course Goals and Objectives

- Think critically and collectively about financial crises combining economic, historical and sociological perspectives.

- Synthesize and make sense of the relevant facets of a complex global problem through the lens of an interdisciplinary approach.
- Carry out research in library databases including print and electronic sources.
- Develop an independent research project using rigorous research methods.

Course evaluation

- *Blog posting and Discussion leadership (15%)*: This course is organized around a set of readings that will be used to prepare in-class discussion. Students are expected to complete all readings prior to the class. Each week a student (or group of students) will lead the class discussion. The student (or student team) leading the discussion will post a list of questions on the class' blog no later than at noon the day before class. Questions will help other students prepare comments related to the readings for that week.
- *Class discussion (15%)*: We will work in a seminar-like environment. Class participation is therefore a vital part of the course and a significant component in the final grade. There will be opportunities for students to engage often contentious debates and issues that surround the origins, magnitude, and consequences of the financial crisis. Remember that quality matters more than quantity.
- *Research paper (50%)*: Students will write a research paper (min 6'000 and max 8'000 words without bibliography) that examines a particular case of a financial crisis, integrating the knowledge acquired in this class. Papers must draw on empirical data collected during the course of the semester.
- *Research paper assignments (20%)*: In order to guide you through your research throughout the semester, you will be given a number of assignments that will help you meet deadlines and progress towards the completion of your final paper.

Topic suggestions

Below is a list of crisis-related issues that we will discuss in this class and that you may consider focusing on for your project. The following list is far from exhaustive and you are free to study another (relevant) topic. Originality in the choice of the topic and creativity in the conduct of the research is strongly encouraged. However, please make sure that there is sufficient academic literature and empirical data to complete the final paper.

- Financial regulation during the era of financial booms and bursts (1873-1929)
- The diplomatic role of Switzerland in debt crises resolution (e.g. South Africa).
- Case studies of sovereign debt repudiation (e.g. Cuba, Ecuador)
- U.S. states defaults in the 1840s (e.g. Florida, Maryland, Mississippi)
- The impact of export-promoting agencies in crises management (1945-1989)
- International organizations and the management of financial crises (e.g. the IMF, World Bank, League of Nations, Bureau of International Settlements, UNCTAD)
- International trade and finance during the Great Depression (e.g. Switzerland, Germany)
- The failure of economic forecasting as a cause of financial crises
- The socio-economic roots of financial crises
- Technological change as a driver of financial instability

Examples of archival sources

Macro archives

- Gallica
- Bibliothèque de France (catalogue.bnf.fr)
- Archives fédérales suisses
- Dodis

Newspapers digital archives

- New York Times
- The Economist
- The Financial Times
- Le Figaro
- Le Monde diplomatique
- Le Temps
- Journal de Genève
- Gazette de Lausanne

Financial archives

- Fraser St Louis Fed Reserve
- Capital Markets of the World 1850-2000 (contact Graduate Institute)
- Archives de la bourse de Genève
- League of Nations
- Archives du FMI

Syllabus

I. Financial crises of the 18th and 19th centuries

1. General introduction and theoretical frameworks

19 February (exceptionally at 10:15am, First Session scheduled at 12:15pm)

Readings

Eichengreen, Barry (2003), *Capital Flows and Crises*, MIT Press. Chapitre.2.

Kindleberger, Charles (2000), *Manias Panics and Crashes, A history of financial crises*, New York : Wiley Investment Classics. chapters 2 and 3 (4e éd.).

Reinhart, C., & Rogoff, K. (2009). This time is different: Eight centuries of financial folly, pp. 15-20 and 203-215, Princeton University Press.

First Session: Questions and sources in the history of financial crises: research topic suggestions

Assignment: write one or two paragraphs describing your interests in financial crisis. What classes have you taken in the past that explored this topic? Have you written any research papers before which you would like to take further? Do you have a specific (geographical, personal) experience that could lead you toward a specific topic of research? Have you ever worked with primary source? Which sources in the history of financial crises do you know?

2. The first financial crises: The Tulip Mania of 1637 to the Mississippi crisis of 1720 (JF)

26 February

Readings

Garber, Peter M. 1990. "Famous First Bubbles." *Journal of Economic Perspectives*, 4(2): 35-54.

Kindleberger, Charles (2000), *Manias Panics and Crashes, A history of financial crises*, New York : Wiley Investment Classics. chapters 7 et 8 (5th ed.).

3. The 1825 crisis: London and the effects stemming from financial globalization (JF)

4 March

Readings

Neal, L. (1998), "The Financial Crisis of 1825 and the Restructuring of the British Financial System," *Review of the Federal Reserve Bank of St. Louis*, May/June, pp. 53-76.

Flandreau, Marc, and Juan H. Flores (2009), "Bonds and Brands: Intermediaries and Reputation in Sovereign Debt Markets: 1820–1830". *Journal of Economic History* 69: 3646–3684.

4. The « Great Depression of the 19 century »: interactions between the real economy and the financial sector

11 March

Readings

Bignon, V., Flandreau, M. And Ugolini, S. (2012), "Bagehot for beginners: the making of lender-of-last-resort operations in the mid-nineteenth century". *The Economic History Review*, 65: 580-608.

Marichal, Carlos (1989), *A century of debt crises in Latin America: from independence to the Great Depression, 1820-1930*. Princeton: Princeton University Press, chapter 4.

Second Session on case studies: Framing a research project and research topic presentation (LVA)

Assignment 1: propose between two and four possible research topics for your research paper. Try to be as specific as possible. Include possible primary sources that you could use to research these topics.

Assignment 2: Statement of purpose: Fill in the blanks for the following sentence:

I am studying (*insert your broad research topic*) **to** (*understand /how/why/ what/the role of*) (*insert your specific research question/problem*) **to** (*insert why your project is important/why people should care about it/what new information it gives us*).

+ Tentative bibliography: Submit a list of between 5 and 10 sources that you could use to answer your research question. Use proper citations.

5. The Baring crisis of 1890: Information asymmetries and conflicts of interest

18 March

Readings

Eichengreen, B. (1999), "The Baring Crisis in a Mexican Mirror", *International Political Science Review / Revue internationale de science politique*, v. 20, 3, 249-270.

Flores, J.H., (2011), "Information Asymmetries and Conflict of Interest During the Baring Crisis, 1880-1890", *Financial History Review*, v. 18(02), p.191-215.

II. The early 20th century and the interwar period

6. The crisis of 1907 and the establishment of the FED in the United States (JF)

25 March

Readings

Tallman, Ellis W. et Moen, Jon R. (1990), "Lessons from the Panic of 1907", *Economic Review*, May /June.

O'Sullivan, Mary (2016), *Dividends of Development*, Oxford: Oxford University Press. Chapter 5.

7. Interwar session I: Reconstructing the World Economy – fragilities in the economic system

1 April

Readings

Flores Zendejas, Juan; Decorzant, Yann (2016), "Going multilateral? Financial markets' access and the League of Nations loans, 1923–8", *Economic History Review*, 2016, Vol. 69, no.2, pp. 653-678.
Wolf, Nikolaus (2010), "Europe's Great Depression: coordination failure after the First World War", *Oxford Review of Economic Policy*, Volume 26, Issue 3, p. 339–369

Third session on case studies: Research project development

Assignment: In this short paper (1 page, double-spaced) describe how you intend to frame your paper.

Answer the following questions:

1/What's the problem under study? What paradox, conflict, unanswered question or untested population does your experiment address?

2/Why is it important? Why should we care?

3/What is your point / argument?

4/Which sources are you using (primary/secondary sources)? What does the data say?

5/ What problems are you facing in the development of your project?

You are expected to have done preliminary research on your subject (a visit to the librarian can really be beneficiary).

8. Interwar session (II): causes of the Great Depression: Stock market crashes and the debate on rating agencies

8 April

Readings

Bierman, Harold Jr. (1998), *The causes of the 1929 Stock Market Crash. A speculative orgy or a new era?*, Westport Conn.: Greenwood Press. Read chapter 3, pp. 29-39 and chapter 9, pp. 133-143
Flandreau, M., Gaillard, N., & Packer, F. (2011). "To err is human: US rating agencies and the interwar foreign government debt crisis". *European Review of Economic History*, 15(3), 495-538.

15 April – Easter Holidays

9. Interwar session (III): the consequences of the Great Depression:

22 April

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.

Eichengreen, Barry J. (2015). *Hall of mirrors: the great depression, the great recession, and the uses-and misuses-of history*, Oxford University Press. Read chapter 15, pp. 225-238.

III. Financial crises after 1945

10. Technological change and growing market instabilities: the 1987 crash in perspective

29 April

Readings

Carlson, Mark, "A Brief History of the 1987 Stock Market Crash with a Discussion of the Federal Reserve Response" *Finance and Economics Discussion Series* No. 2007-13, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, DC, November 2006.

Shiller, Robert. "Portfolio Insurance and Other Investor Fashions as Factors in the 1987 Stock Market Crash" *NBER Macroeconomics Annual* 3 (1988): 287-97.

Fourth session on case studies: Data analysis and interpretation

Assignment: Prepare 3-4 slides showing the primary sources that you are using and submit a short paper (1-page, double space) explaining how this material is helping you to answer your research question

6 mai – Pas de cours

11. International debt crises and IMF lending programs (1980s-1990s)

13 may

Readings

Vaubel R. (1983), "The Moral Hazard of IMF Lending", *The World Economy*, 6(3): 291-305.

Wellons, P. (1985). "International debt: The behavior of banks in a politicized environment". *International Organization*, 39(3), 441-471.

12. The subprime crisis: a primer –

20 May

Readings

Carruthers, Bruce. 2013. "From Uncertainty Toward Risk: The Case of Credit Ratings." *Socio-Economic Review* 11(3):1-27.

Engelen, E., Ertürk, I., et al. (2011). *After the great complacency: Financial crisis and the politics of reform*. Oxford University Press. Read Introduction, pp. 1-11 and chapter 1, pp. 12-36.

Fifth session on case studies: Final presentations
