

Professor Christopher Ragan
McGill University
Fall 2016

Economics 319

Economic Crises: Past, Present and Future

Rutherford Physics #112, M and W, 8:30 am – 10:00 am

This course provides an introduction to economic and financial crises. It draws on lessons from “ancient” and recent historical episodes. It then explores the global financial crisis of 2008-09 as well as the ongoing European fiscal/political/currency crisis.

Prerequisites: In order to take this course, you must have already received a passing grade in Economics 208 and 209 (or their equivalents). If you have not successfully completed these courses, you are not permitted to take this course.

MyCourse page: A *MyCourse* page for this course posts the course outline and reading list, PowerPoint lecture slides (after each section is complete), past exams, non-text electronic readings, and recorded lectures.

Required Readings: The required books (available at Paragraphe bookstore) are:

- J.K. Galbraith, *A Short History of Financial Euphoria*
- J.K. Galbraith, *1929: The Great Crash*
- S. Johnson and J. Kwak, *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown*
- Conference Board of Canada, *Crisis and Prevention: Lessons from the Financial Meltdown and Recession*

In addition, there are several required readings that will be posted on the course’s *MyCourse* page.

Useful References: A useful reference for those who may need to review their basic macroeconomics is C. Ragan, *Macroeconomics 15th Edition* (published by Pearson Canada). You will also find the following book a very useful – and very readable – treatment of many of the issues: P. Krugman, *The Return of Depression Economics and the Crisis of 2008*.

Grading:

There will be three parts to your overall course grade:

Part 1 is the assignments (20%)

Part 2 is the op-ed essays (30%)

Part 3 is the final December exam (50%)

Part 1: Assignments:

- two theoretical/technical assignments
- each assignment must be done in groups of 4 students (each student in the group will get the same grade)
- each assignment is worth 10% of your overall course grade
- no late assignments will be accepted
- the due dates are:
 - o Assignment #1: Monday, September 26, at start of class
 - o Assignment #2: Monday, October 10, at start of class

Part 2: Essays:

- three “op-ed” style essays, 800 words (+/- 10 words)
- each student must submit essays electronically to *Peer Scholar*
- each student must also review and grade the essays for four other students (each time)
- a small penalty: 10 points for inappropriate length of essay
- a stiffer penalty: your grade for an essay will be 0 unless you submit all four grades for the other essays
- each essay (adjusted with penalties) is worth 10% of your overall course grade
- no late essays (or grades of others’ essays) will be accepted
- the due dates are:
 - o Op-Ed #1: Friday, November 4, 8:30 am
 - o Op-Ed #2: Friday, November 18, 8:30 am
 - o Op-Ed #3: Friday, December 2, 8:30 am

Part 3: Final Exam:

- three-hour exam, scheduled during the December exam period
- worth 50% of your overall course grade
- see past exams posted on *MyCourses* to see format and question style

Note that it is against McGill regulations for the instructor to alter the course’s grading scheme (after the course starts) for any reason. Specifically, poor performance on one component of the overall grade cannot lead to a re-weighting toward other components.

Peer Scholar:

For the essays, you will need to register for Peer Scholar. There is a fee of roughly \$20. One of the TAs for the course will be managing all details related to Peer Scholar, and he will be available to deal with any problems or questions you might have. We will have a “practice” essay on Peer

Scholar that is intended to ensure that everyone knows how the program works. The TA will arrange this. Stay tuned.

Make-Up Classes:

I travel a fair amount and will be forced to miss a few classes, perhaps 2-4 in total. I will tell you about this ahead of time. These missed classes will be replaced with an occasional evening lecture, on Monday evenings, 5:30 pm – 8:30 pm, in Rutherford 112.

Contact: My office hours are Monday and Wednesdays, 10:00 am – 11:00 am. Please feel free to drop by and chat (my office is Leacock 321-C). If this time is not convenient, please speak to me to arrange an appointment.

Please do not send me emails regarding questions about class material. If you have questions, please come to my office hours.

The following is required to appear on this course outline:

McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see www.mcgill.ca/integrity for further information).

L'université McGill attache une haute importance à l'honnêteté académique. Il incombe par conséquent à tous les étudiants de comprendre ce que l'on entend par tricherie, plagiat et autres infractions académiques, ainsi que les conséquences que peuvent avoir de telles actions, selon le Code de conduite de l'étudiant et des procédures disciplinaires (pour de plus amples renseignements, veuillez consulter le site <http://www.mcgill.ca/integrity>).

According to Senate regulations, instructors are not permitted to make special arrangements for final exams. Please consult the calendar, section 4.7.2.1, General University Information and Regulations, at www.mcgill.ca .

In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

Economics 319

Detailed Course Outline

- **Section 1: Review of Core Macro Material** (5 lectures: September 2, 7, 12, 14, 19)
 - the Keynesian Cross and money markets
 - the IS/LM model
 - the AD/AS model, with Phillips Curve adjustment
 - monetary and fiscal policies, exchange rates

Useful Reference:

Ragan, *Macroeconomics*: Chapters 21-24, 27-28, 34

- **Section 2: Primer on Financial Markets** (3 lectures: September 21, 26, 28)
 - the role of stock and bond markets
 - balance sheets and banking basics
 - leverage, securitization and bank capital

Useful Reference:

Ragan, *Macroeconomics*: Chapter 26

Required Readings:

- C. Ragan, “A Beginner’s Guide to the Stock Market”.
- C. Ragan, “What the S&P/TSX Really Measures”.
- R. Shiller, Chapter 26 (“Speculative Bubbles and Their Costs to Society”), *Finance and the Good Society*, Princeton University Press, 2012.
- L. Booth, “The Secret of Canadian Banking: Common Sense?”, *World Economics*, July-September 2009.

- **Section 3: Crises in “Ancient” History** (4 lectures: October 3, 5, 10, 12)
 - Tulipomania, La Banque Royale, the South Sea Bubble
 - The First and Second Banks of the United States
 - October 1929 and the Great Depression

Useful Reference:

G. Grantham, “The Great Depression” (mimeo)

Required Readings:

- J.K. Galbraith, *A Short History of Financial Euphoria*
- J.K. Galbraith, *1929: The Great Crash*
- S. Johnson and J. Kwak, *13 Bankers* (Introduction and Chapter 1)

•• **Section 4: Exchange Rates and Capital Flows** (4 lectures: October 17, 19, 24, 26)

- Flexible exchange rates and “overshooting”
- Fixed exchange rates and speculative attacks
- Contagion and the “policy trilemma”
- Understanding IMF policy responses?

Useful Reference:

Ragan, *Macroeconomics*, Chapter 34

P. Krugman, *The Return of Depression Economics* (Chapters 1-5)

Required Readings:

S. Johnson and J. Kwak, *13 Bankers* (Chapters 2, 3, and 4)

L. Summers, “International Financial Crises: Causes, Preventions, and Cures”, *American Economic Review*, May 2000.

R. Dornbusch, Y. Park and S. Claessens, “Contagion: Understanding How It Spreads”, *The World Bank Research Observer*, August 2000.

C. Ragan, “Expectations and Exchange-Rate Overshooting”.

•• **Section 5: The 2008-09 Global Financial Crisis** (5 lectures: October 31, Nov 2, 7, 9, 14)

- “sub-prime” mortgages, monetary policy, global savings glut, etc.
- the U.S. housing collapse
- the credit crunch and the financial crisis
- Canadian and international policy responses

Useful Reference:

P. Krugman, *The Return of Depression Economics* (Chapters 6-10)

L. White, “The Credit Rating Agencies”, *Journal of Economic Perspectives*, Spring 2010.

C. Reinhart and V. Reinhart, “After the Fall”, unpublished mimeo, August 2010.

J. Cassidy, “The Volker Rule”, *The New Yorker*, July 26, 2010.

Required Readings:

S. Johnson and J. Kwak, *13 Bankers* (Chapter 5)

C. Ragan, “The U.S. Housing Collapse and the Financial Crisis of 2007-2008”.

B. Bernanke, “Monetary Policy Since the Onset of the Crisis”, paper delivered at the Federal Reserve Bank of Kansas Symposium, Jackson Hole, August 2012.

M. Mayo. “Why Wall Street Can’t Handle the Truth”, *Wall Street Journal*, November 8, 2011.

TD Economics, “U.S. Financial Regulatory Reform and the Dodd-Frank Bill”, July 2010.

The Economist, “Too Big Not to Fail”, February 18th, 2012.

Conference Board of Canada, *Crisis and Intervention* (all chapters) – we will choose a few of these chapters to discuss in detail in class

•• Section 6: The Ongoing European Crisis

(4 lectures: November 16, 21, 23, 28)

- optimal currency areas
- intrinsic debt dynamics
- the evolution of the European debt situation
- politics, prospects and policy options

Required Readings:

P. Krugman, “Can Europe Be Saved?”, *New York Times Magazine*, January 12, 2011.

M. Higgins and T. Klitgaard, “Saving Imbalances and the Euro Area Sovereign Debt Crisis”, *Current Issues*, Federal Reserve Bank of New York, Fall 2011.

G. Friedman, “Global Economic Downturn: A Crisis of Political Economy”, *Geopolitical Weekly*, August 2011.

Conference Board of Canada, “The Endgame for the Euro: Three Unattractive Options”, May 2012.

•• Section 7: Summary and Review

(2 lectures: Nov 30 and December 5)

Required Readings:

P. Krugman, “The Profession and the Crisis”, *Eastern Economic Journal*, p.307-312.

W. White, “Modern Macroeconomics Is on the Wrong Track”, *Finance and Development*, December 2009.

D. Barton, “Capitalism for the Long Term”, *Harvard Business Review*, March 2011.
