

Governing Crises

The International Political Economy of Financial Crashes and Their Aftermath

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Course description

Why do financial crises happen? How do they affect international relations and domestic policy choices? What political projects have organized the regulation of the international financial sector over the course of the past century? This interdisciplinary course uses political, historical and sociological analyses to address these questions while exploring both mainstream and alternative economic approaches to financial booms and busts.

The first part of the course prepares the ground by introducing basic arguments and concepts on how financial markets work and the regulatory politics that affect them. The second part focuses on the history of finance and financial crises, beginning with the 18th century and ending with the East Asian Crisis of 1997. Part three focuses on the causes of and reactions to the Lehman crisis of 2008. The final part of the course focuses on the politics of ongoing attempts to stabilize the international financial sector and make it less crisis-prone in the future.

Grade breakdown:

Mid-term examination: 30% (in-class, closed book examination based on the first half of the course).

Final examination: 40% (in-class, closed book examination based on the second half of the course).

Book essay: 20 % (critical review of two prominent books on financial crises).

Active class participation: 10% (attendance and informed participation in class discussions).

The book essay is due at the beginning of the last lecture. It should compare the explanations given about the causes of financial crises by two of the following books:

Akerlof, George A., and Robert J. Shiller. *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism (New in Paper)*. Princeton University Press, 2010.

Arestis, Philip, and Malcolm Sawyer, eds. *The euro crisis*. Vol. 8. Palgrave Macmillan, 2012.

Galbraith, John Kenneth. *The great crash of 1929*. Download iTunes eBook, 2009.

Lapavistas, Costas. *Profiting Without Producing: How Finance Exploits Us All*. Verso, 2013.

Reinhart, Carmen M., and Kenneth Rogoff. *This time is different: Eight centuries of financial folly*. Princeton University Press, 2009.

Shiller, Robert J. *The subprime solution: How today's global financial crisis happened, and what to do about it*. Princeton University Press, 2008.

Tett, Gillian. *Fool's gold: How the bold dream of a small tribe at JP Morgan was corrupted by Wall Street greed and unleashed a catastrophe*. Simon and Schuster, 2009.

Minsky, Hyman P., and Henry Kaufman. *Stabilizing an unstable economy*. Vol. 1. New York: McGraw-Hill, 2008.

The book essay should be 2000 words long and should consist of five parts: description of the arguments, how the books differ in their analysis, their contributions to existing debates and a discussion of their respective strengths and weaknesses. Footnotes and bibliography are required and should be formatted according to the Chicago Manual of Style.

Requirements: The class requires ECON 101 and 102.

Office hours

Tuesday and Wednesday between 1 p.m. and 4 p.m.

Work and Ethics

The course has two sessions per week.

All students are expected to attend all sessions and maintain high standards of academic honesty and integrity. Make sure you provide citations for all quotations, paraphrases, and ideas taken from any source other than your own. Boston University has very strict standards for intellectual integrity, and punishment for plagiarism may be severe, and can include permanent expulsion from the university.

You are responsible to know Boston University's Academic Conduct Code. Link: <http://www.bu.edu/academics/resources/academic-conduct-code/>

All cases of suspected misconduct will be referred to the Dean's Office. Papers handed in late entail the loss of ten percent of the grade for each day.

A single absence entails an automatic cut of 5 out of 10 points in your participation grade. If you have more than one absence you will lose all the ten points assigned for participation. No make-up assignments are allowed.

BOOKS

Rajan, Raghuram G. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton University Press, 2011.

Mark Blyth, *Austerity: The History of a Dangerous Idea*, Oxford University Press, 2013.

John Quiggin, *Zombie Economics: How Dead Ideas Still Walk among Us*, Princeton University Press, 2012.

Kindleberger, Charles P., and Robert Z. Aliber. *Manias, panics and crashes: a history of financial crises*. Palgrave Macmillan, 2011

Helleiner, Eric. *States and the reemergence of global finance: from Bretton Woods to the 1990s*. Cornell University Press, 1996.

WEEKLY READINGS

Part one: Basic Lexicon

1. Introduction

INET mini-documentary

<http://www.youtube.com/watch?v=9JD6uuiiZPY>

John Lanchester, “Money Talks,” *New Yorker*, August 4, 2013

IMF, “Looming Ahead,” *Finance and Development*, September 2014,
<http://www.imf.org/external/pubs/ft/fandd/2014/09/nobels.htm>

2. Taking Stock

Rajan, *Faultlines*, introduction.

Blyth, *Austerity*, introduction.

3. Basic concepts

Quiggin, *Zombie Economics*, introductions and chapters 3-4.

Blyth, *Austerity*, chapter 2 (until Taleb’s Swans).

Keynesians versus “neoliberals” in *The Economist* (“Keynesian Principles”)

<http://www.economist.com/debate/days/view/276>
<http://www.economist.com/blogs/freeexchange/2013/11/economic-history-2>

4. Financial instability

Minsky, Hyman P. "The financial instability hypothesis: an interpretation of Keynes and an alternative to " standard" theory." *Challenge* 20.1 (1977): 20-27.

John Cassidy, "The Minsky Moment" *New Yorker*, February 4, 2008
<http://www.newyorker.com/magazine/2008/02/04/the-minsky-moment>

Anastasia Nesvetailova "The Global Financial Crisis: Why does it happen again & again?"

<https://www.youtube.com/watch?v=A3aWnDr5W7A>

Part Two: Crises in Time

5. Tulips, Seas and Great Crashes

Kindleberger, chapters 1, 3, 4, 10.

Milton Friedman on the Great Depression <http://www.youtube.com/watch?v=9JD6uuiiZPY>

6. Creating a new financial order: From Bretton Woods to Resurgent Finance

Helleiner (parts 1 and 2)

7. The Great Compression and the Troubles of the Global South

Rajan, *Fault Lines*, chapters 1, 2 and 4.

Part Three: The Road to Lehman

8. Credit, Inequality and Mathematical Hubris

Rajan, *Fault Lines*, chapters 1 and 4.

The IMF on inequality and financial instability

<http://www.imf.org/external/pubs/ft/fandd/2011/09/Kumhof.htm>

Joe Nocera on value at risk analysis, <http://www.nytimes.com/2009/01/04/magazine/04risk-t.html>

Rajan, Chapter 3.

9. Midterm exam (in-class)

The Lehman Moment

Eugene Fama on the financial crisis,
<http://www.newyorker.com/online/blogs/johncassidy/2010/01/interview-with-eugene-fama.html>

Blyth, Chapter 2 (from Taleb's *Black Swans* to the end).

Detzer, Daniel, and Hansjorg Herr. *Theories of Financial Crises*. No. wpaper25. 2014.

<http://fessud.eu/wp-content/uploads/2013/04/FESSUD-Working-Paper-Theories-of-financial-crisis-13022014-working-paper-25.pdf>

Margin Call, excerpts.

Part Four: Through the ashes of Lehman

10. The Great Recession and the European Crisis

Joseph Stiglitz, "The Non-Existing Hand" *London Review of Books*, April 22, 2010
<http://www.lrb.co.uk/v32/n08/joseph-stiglitz/the-non-existent-hand>

Martin Feldstein on the Future of the Euro, *Foreign Affairs*, http://youtu.be/Vsqd_gOHmy8

Blyth, Chapter 3.

11. Austerity and Reform

Blyth, *Austerity*, Chapter 6.

Quiggin, *Zombie Economics*, chapters 8 and 9.

12. Repression

Blyth, *Austerity*, conclusions.

Laura Kodres and Aditya Narain, “Fixing the System,” *Finance and Development*, June 2012, (IMF report on how to fix finance).

Admati, Anat R., and Martin Hellwig. *The Bankers' New Clothes: What's Wrong with Banking and what to Do about it*. Princeton University Press, 2013, (chapter 1 will be uploaded on the class blog).

13. Wrap-up

Quiggin, *Zombie Economics*, chapters 5 and 6.

Martin Wolf, “Is Unlimited Growth a Thing of the Past,” *Financial Times*, available at <http://www.ft.com/intl/cms/s/0/78e883fa-0bef-11e2-8032-00144feabdc0.html#axzz2LmW2cxgz>

Book essay due

Final: TBA