

FINANCIAL CRISIS ECONOMICS 464W Winter 2008

INSTRUCTOR Levis A. Kochin

Class Condon Hall Room 101 T & TH 10:30AM-12:20PM

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OFFICE HOURS: T and TH 1:30-2:30 PM and by appointment

This copy December 24, 2007

TEXTS: Required

- 1) *The Wall Street Journal*
- 2) Barry Eichengreen *Globalizing Capital: A History Of The International Financial System*
Princeton Univ. Press August 1998
- 3) Milton Friedman and Anna Jacobson Schwartz *A Monetary History Of The United States, 1867-1960*
Princeton University Press 1963
- 4) A Book of Readings at
Rams Copy Center 4144 University Ave. NE

Assignments included in the readings are indicated below by *

TEXTS: Recommended

Barry Eichengreen Oxford University Press 1995

THE ECONOMIST Newsweekly

KEY DATES

QUIZES Unscheduled Best 3 of 5 20 % of Term Grade

FINAL Monday March 17 10:30AM- 12:30PM 30% of Term Grade

Term Paper:

- 1) Proposal Due Tuesday January 22
A term paper proposal of 1 page with 3 references No Grade
At least 1 reference to an article on this assignment list
At least 1 reference to an article NOT on this assignment list
- 2) Preliminary Term Paper Due Tuesday February 19 10% of Course Grade
Approved Proposal must be resubmitted with Preliminary Term Paper
Preliminary Term Paper must be at least six pages with at least six references and in addition at least two graphs or charts
- 3) A Final Term Paper Term Paper is Due Wednesday March 19 5PM
The Final Term Paper must be at least 12 pages at least six references and in addition at least three graphs or charts
The Graded Preliminary Term Paper must be Resubmitted with Final Term Paper

Some helpful WEBSITES

ROUBINI <http://www.rgemomonitor.com/>

DELONG <http://econ161.berkeley.edu/>

IMF <http://www.imf.org>

Bordo <http://michaelbodo.googlepages.com/>

NBER <http://papers.nber.org/papers.html/>

T 2/26 The Breakdown of Bretton Woods and the Inflation of the 1970s and the Savings and Loan Crisis of the 1980s

Eichengreen *Globalizing Capital*: Chapter 5

*Krugman, Paul R. "The J-Curve, the Fire Sale and the Hard Landing" *American Economic Review* May 1989 pp. 31-35

* Michael D. Bordo "Historical Perspectives on Global Imbalances" NBER Working Paper 11383 May 2005

Paul M. Horvitz "The Causes of Texas Bank and Thrift Failures" *If Texas Were Chile: A primer on Banking Reform*

Japan's Slump and Modern Monetary Policy 2/26

Paul Krugman "Thinking About the Liquidity Trap" MIT Dec. 1999

*Gov. Ben Bernanke "Some Thoughts on Monetary Policy in Japan" Speech 2003

Michael Woodford "The Case for Forecast Targeting as a Monetary Policy Strategy" *The Journal of Economic Perspectives* Fall 2007 pp. 3-24

N. Kundan Kishor and Levis A. Kochin "The Success of the Fed and the Death of Monetarism" *Economic Inquiry* January 2007 pp. 56-70

Emerging Market Debt Crises T 3/4 TH 3/6

*Phil Brock "External Shocks and Financial Collapse: Foreign Loan Guarantees and Inter temporal Substitution of Investment in Texas and Chile" *American Economic Review* May 1992 pp 168-172

Eichengreen *Globalizing Capital*: Chapter 5

*Rudi Dornbusch "A Primer on Emerging Market Crises" MIT 1/2001

*Lawrence H. Summers "International Financial Crises: Causes Prevention and Cures" *American Economic Review* May 2000 pp. 1-16

*Levis A. Kochin "Real (Estate) Booms and Busts" Univ. of Washington October 1996

The Subprime Credit Crisis T/ 3/11

* Michael D. Bordo "Historical Perspectives on Global Imbalances" NBER Working Paper 11383 May 2005

* Michael D. Bordo "The Crisis of 2007: The Same Old Story Only the Players Have Changed" Rutgers and NBER September 2007

\ Review TH 3/13

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Final464F07

Essay Questions (20 POINTS EACH) Answer All 7

- 1) What was the appeal of a bi-metallic standard in 1803? In 1896? Has any country ever had a bi-metallic standard for any considerable length of time? What would have happened in the US if the US had repealed the "Crime of '73" in 1896 so that either 100 ounces of gold or 1600 ounces of silver could have been handed in at the US mint for \$2067?
- 2) Why did the US Federal Government have a substantial deficit in the Civil War, World War I, the Great Depression and World War II and the Reagan Administration? Use a diagram in explaining your answer.
- 3) Discuss the current Sub Prime Credit Crisis. What generated the crisis? Should the Fed have altered monetary policy in 2003 and 2004 to prevent such a crisis? What has the Fed done so far in response to the Sub Prime Credit Crisis? How is the Sub Prime Crisis different from the S&L Crisis?
- 4) What was different about the declines in the US economy in 1929-1930 and 1930-1933? How was each generated? Was the Fed at fault? Calculate the implicit price deflator and velocity for each of the three dates below.

	H	R/D	C/D	M	G(at cost)	y (Real GDP)	Y(Nominal GDP)
	\$B			\$B	\$B	B1929\$/year	\$B/year
10/29	7.3	079	.086	?	4.2	104	104
10/30	6.8	078	.087	?	4.4	95	91
3 /33	8.4	.118	.225	?	4.3	74	56

How does this data suggest that the decline in the money supply caused the Great Contraction rather than vice versa? Does the fact that H and the ratio of M to Y rose from October 1930 to March 1933 in the US mean that mistaken policies by the Fed were not important causes of the Great Contraction? Is the need for a devaluation of the US\$ against gold clearly evident in these figures?

- 5) Explain why Bernanke believed that Japanese experience should lead the US to avoid deflation? that announced inflation would help Japan to escape its current liquidity trap. In what period may the US have faced a liquidity trap? Why did Krugman expect fiscal policy to be limited by Ricardian Equivalence? Use a diagram or diagrams in explaining your answer.
- 6) What happened to the German price level from 1914 to 1923? Why did the real quantity of money fall and the nominal interest rate rise in Germany over that time? How was the course of events over the same time period different in France? Why did Germany effectively return to the gold standard before France?
- 7) Discuss the Asian Crisis of 1997. What was the role of real estate speculation and "Original Sin" in generating the crisis? How was the Asian Crisis different from the Mexican Crisis of 1982?