POLS/ECON 409 · *Economics of the Financial Crisis, Part 2*

current account deficit	"Greenspan put"	contagion
"savings glut"	skill-biased technology change	tail risk
sovereign debt	correlated risks	"black swans"
automatic stabilizer	Lucas critique	

1. Rajan argues that inequality explains the financial crisis. Trace his argument from the causes of inequality to the consequences. Who are the key actors: political and economic elites or the working and middle classes? Is Rajan persuasive on this point?

2. Rajan emphasizes government's role in encouraging subprime mortgages in what might be called the "conservative" explanation of the financial crisis. What are the elements of this explanation. How do Blyth and Galbraith respond?

3. According to Blyth, how did CDOs and CDSs induce correlations in previously uncorrelated real estate markets? What effect did this have? What does it suggest about financial engineering?

4. Blyth argues that the financial crisis should discredit neoclassical macro-economics in much the same way the oil crises undermined the original Keynesian consensus. Do you agree? Has this in fact happened? Is this an intellectual question or a political one?

5. Are financial crises historically rare or common? Are they confined to certain kinds of economies? What explains their ebb and flow over time?

6. According to Reinhart & Rogoff, what reasons did optimists give for dismissing the risk of an American financial crisis in the 2000s?

7. What is Bernanke's savings glut argument? How does it connect to secular changes in the US and global economies?

8. According to Reinhart & Rogoff, how was the 2008 financial crisis in the US and elsewhere similar to other major financial crises, and how was it different?

9. How did the economic consequences of pre-war and post-war financial crises differ? What role did sovereign debt play?

10. What is the difference between common external shocks and contagion? Between fast contagion and slow contagion? Why are global financial crises so much worse than national or regional ones?

11. *Ex ante*, how does one spot a brewing financial crisis? Apply the insights of Reinhart & Rogoff to the present-day economy of the United States. Is there currently risk of a new financial crisis? Are there warning signs for the future?

12. If financial crises create huge, enduring, and transmissable real economic losses, what does this tell us about the net benefits of financial liberalization and regulation? Is there any way to avoid financial crises? Should financial regulation even be left up to each country to decide?

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