

**Syllabus First-Year Seminar Econ 089**  
**University of North Carolina**  
**History of Financial Crisis, 1637-2015**

John Komlos, Visiting Professor, Professor Emeritus, University of Munich  
Genome Sciences 1373, 9:30-10:45

The main goal of this first-year seminar is to discuss the 379-year-history of financial crisis ending with the Great Meltdown of 2008. We will ascertain recurring historical patterns of financial bubbles, however, without overlooking critical differences. If history repeats itself, why can't we avoid making the same mistakes over and over again? You'll have to take the class to find out. The Great Meltdown happened at a time when most macroeconomists (including Nobel Prize winning Bob Lucas and the ex-Fed Chairman Ben Bernanke) were writing about the "great moderation," i.e., that business cycles have practically vanished. They were obviously wrong. Why did they not see the problems on the horizon, even the Queen of England famously asked.

The discussions will provide a hands-on opportunity for students to interact and grapple with contemporary problems and current economic policy with an open mind and widen their perspective in order to understand the complexities of the issues facing us. By reading articles relevant to the aftermath of the financial crisis students will gain a broader understanding of the global economy in which we live and work. In addition, the historical perspective will enable the students to gain a more thorough appreciation of the challenges that lie ahead for their generation. The primary aim of the course is not to concentrate on facts, theorems, or numbers but rather to comprehend the big picture of economic processes in their social and political context in a very long-run perspective.

Further goals are a) to improve students' rhetorical skills in class discussion and oral presentations; b) improve their ability to frame questions about topics that are new and unfamiliar to them; c) to practice analyzing arguments and understand their logical structure as well as the assumptions underlying them; d) to practice using concepts in novel ways; e) to improve judging issues in new situations in an emotionally mature way; f) to practice pattern recognition; g) to evaluate, synthesize, and analyze economic issues creatively from a historical perspective. There is no math involved in the seminar and many of the assignments pertain to audio-visual material.

You should be willing to argue, agree, disagree, and advocate your own point of view. As in so many other aspects of life, a golden mean is to be sought. You are expected to attend every class and to be prepared to engage in thoughtful discussion. You should have understood the assignments, be able to discuss them intelligently and be able to challenge, defend, and examine the inferences, generalizations that follow from them. Do draw connections among the various points made. Participation means that you will learn also from each other.

Finally, let us turn to the less important issue of Grades.

There will be weekly quizzes. In addition, students are required to write a 10-page book report and to make a 7-minute oral presentation on their book report. Book list will be distributed in class.

Grades will be based on the following schedule:

Midterm examination:	20%
Class participation:	15%
Book report:	15%
oral presentation	5%
Weekly quizzes:	25% Average of 12 quizzes
Final Examination:	20%

Textbook: Charles Kindleberger, *Manias, Panics, and Crashes, A History of Financial Crises*

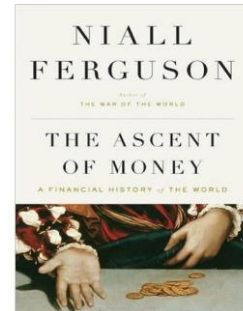
**“Neither a borrower nor a lender be;  
For loan oft loses both itself and friend,  
And borrowing dulls the edge of husbandry,”  
Polonius in Shakespeare’s *Hamlet* Act 1, scene3.**

### **Week 1. Introduction to financial crisis.**

**Read:** Kindleberger, Chapter 1 and Introduction.

**Read:** Niall Ferguson, 2008. *The Ascent of Money: A Financial History of the World*. Chapter 3.

**Watch:** *The Ascent of Money Episode 3: Blowing Bubbles:*  
<https://www.youtube.com/watch?v=KdENsIkBpiY>



The whole 4-part series is available. I recommend that you watch the whole series but it is not mandatory. <http://www.pbs.org/wnet/ascentofmoney/category/video/>

**Do** Quiz 1.

**“Those who cannot remember the past are condemned to repeat it.”—George Santayana**

**Weeks 2-3. Bubbles recurring: The Tulip Mania of 1637, the South Sea Bubble of 1720, and the Mississippi Company Bubble of 1720.**

**Read:** Kindleberger, Chapters 2, 3.

**Do** Quizzes 2, 3, 4.

### **Week 4. The Kindleberger-Minsky Model of Financial Crisis.**

**Read:** Kindleberger, Chapter 4.

**Do** Quiz 5.

**Read:** Hyman Minsky, “The Financial Instability Hypothesis,” Working Paper No. 74. The Levy Economics Institute of Bard College. <http://www.levyinstitute.org/>



**Watch** the “Bank-Run” scene in the 1946 movie “It’s a Wonderful Life”:

<https://www.youtube.com/watch?v=lbwjs9iJ2Sw>

**Watch:** John K. Galbraith: <http://www.youtube.com/watch?v=yr4wzrOpn6I&feature=related>

## Week 5. Capitalism on Trial: The Great Crash

**Read:** Kindleberger, Chapter 5.

**Read:** Komlos, Chapter 10.

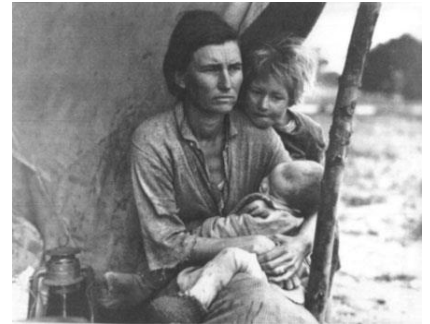
**Do** Quiz 6.

**Watch:** 1929 The Great Crash (BBC 2009).

<http://www.youtube.com/watch?v=gK7G6TtedGY>

**Watch:** BBC: What caused the Wall Street crash?

<http://news.bbc.co.uk/2/hi/programmes/newsnight/8326161.stm>



## Week 6. The Great Depression (Cont'd)

**Read:** Kindleberger, Chapter 6.

**Read:** Komlos, Chapter 11-12.

**Do** Quiz 7.

**Watch:** Milton Friedman, Free to Choose, Vol. 3, The Anatomy of a Crisis

<http://video.google.com/videoplay?docid=-5329526746115377061#>



## Midterm examination

## Week 7. Homo-Oeconomicus Blowing Bubbles: Economic Psychology

**Read:** Kindleberger, Chapter 7.

**Read:** Komlos, Chapter 4.

**Do** Quiz 8.

**Read:** Kahneman, D. "Maps of Bounded Rationality: Psychology for Behavioral Economics." *American Economic Review* (December 2003): 1449-1475.

**Watch:** Kahneman's Noble Prize lecture:

<http://nobelprize.org/mediaplayer/index.php?id=531>



**Optional:** Another Behavioral economist receives the Nobel Prize:

[https://www.nobelprize.org/nobel\\_prizes/economic-sciences/laureates/2017/](https://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2017/)

## Week 8: Deregulation and market instability at the turn of the 21<sup>st</sup> century

**Read:** Kindleberger, Chapter 8.

**Read:** Komlos, Chapter 15.

**Do** Quiz 9. (Make sure you listen to the Shiller lecture on Moodle first.)

**Read:** “The Three Marketeers ,” *Time Magazine*, Feb. 15, 1999.

**Read:** Simon Johnson, “The Quiet Coup,” *The Atlantic*, May, 2009.

<http://www.theatlantic.com/magazine/archive/2009/05/the-quiet-coup/7364/>

**Watch:** Simon Johnson:

<http://www.pbs.org/moyers/journal/02132009/watch.html>



"...as long as the music is playing, you've got to get up and dance. We're still dancing."

Chuck Prince, CEO of Citibank, July 10, 2007.

## Week 9-10. Greenspan's double bubble: Dot-coms and the Great Meltdown

**Read:** Kindleberger, Chapters 9-10.

**Do** Quiz 10. (Make sure you listen to the Stiglitz lecture on Moodle first.)

**Read:** Joseph Stiglitz, [America's Socialism for the Rich](#), *The Economists' Voice*, 6(6), 2009.

**Listen to the** Audio Slide show: Regulators fail:

<http://www.nytimes.com/2008/10/03/business/03sec.html?ei=5070&emc=eta1&r=0>

**Watch:** Alan Greenspan on the Credit Tsunami:

<http://video.nytimes.com/video/2008/10/23/business/1194827509979/greenspan-discusses-credit-tsunami.html>

**Read:** Joseph Stiglitz: “GDP Fetishism,” *The Economists' Voice*, 2009. Vol. 6, Issue 8, Article 5.

Alan Greenspan, “Never Saw It Coming: Why the Financial Crisis Took Economists by Surprise,” *Foreign Affairs*, Nov./Dec. 2013.

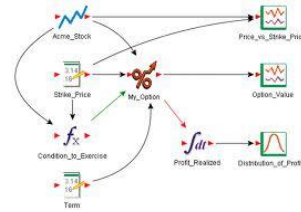


## Week 11-12. The Financial Engineers meet asymmetric information

**Read:** Kindleberger, Chapter 11.

**Do** Quiz 11. (Make sure you listen to the Stiglitz lecture on Moodle first.)

**Read:** Joseph Stiglitz, Information and the Change in the Paradigm in Economics, *American Economic Review*, 92(3), June 2002, pp. 460-501.



**Watch:** Joseph Stiglitz's Nobel Prize lecture on Asymmetric Information

<http://nobelprize.org/mediaplayer/index.php?id=507>

**Watch:** Joseph Stiglitz receiving the Nobel Prize:

<http://nobelprize.org/mediaplayer/index.php?id=159>

**“Derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal.”** Warren Buffett, (Second richest man in America) report to his stockholders in 2002. <http://www.berkshirehathaway.com/2002ar/2002ar.pdf>

## Week 13. The (Mis)pricing of Risk

**Read:** Kindleberger, Chapter 12.

**Do** Quiz 12.

**Watch:** Brooksley Born on Frontline: The Warning

<http://www.pbs.org/wgbh/pages/frontline/warning/view/>

**Watch:** Nassim Taleb on Black Swan

[http://fora.tv/2009/08/18/David\\_Cameron\\_in\\_Conversation\\_with\\_Nassim\\_Taleb](http://fora.tv/2009/08/18/David_Cameron_in_Conversation_with_Nassim_Taleb)

$$c = [S - PV(d)]N(x_1) - PV(k)[N(x_2)]$$

where

$$x_1 = \frac{\ln\left(\frac{S - PV(d)}{PV(k)}\right) + \frac{1}{2}\sigma\sqrt{T}}{\sigma\sqrt{T}}$$

and

$$x_2 = \frac{\ln\left(\frac{S - PV(d)}{PV(k)}\right) - \frac{1}{2}\sigma\sqrt{T}}{\sigma\sqrt{T}}$$

## Week 14. Bankruptcies, Foreclosures, and the Great Recession

**Watch:** Elizabeth Warren on Middle Class bankruptcies:

<http://www.uctv.tv/search-details.aspx?showID=12620>

**Listen:** Two views on Obama Stimulus Plan: Paul Krugman vs Russ Roberts:

<http://www.npr.org/templates/story/story.php?storyId=99679106>



## Week 15. Lessons learned (and not learned): We were all Keynesians for a few months

**Watch:** Joseph Stiglitz “Market fundamentalism is dead”:  
[http://www.youtube.com/watch?v=x\\_2-Tv2GPs0](http://www.youtube.com/watch?v=x_2-Tv2GPs0)

**Watch:** Joseph Stiglitz interview:  
<http://www.newyorker.com/business/james-surowiecki/video-joseph-stiglitz>

**Watch:** Nouriel Roubini on the future of finance:  
[http://fora.tv/2010/05/13/Nouriel\\_Roubini\\_A\\_Crash\\_Course\\_in\\_the\\_Future\\_of\\_Finance](http://fora.tv/2010/05/13/Nouriel_Roubini_A_Crash_Course_in_the_Future_of_Finance)

