Syllabus First-Year Seminar
University of North Carolina
History of Financial Crisis, 1637-2015
John Komlos, Professor Emeritus, University of Munich

The main goal of this first-year seminar is to discuss the 376-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 current 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. Because there may not be enough time during class, discussion can and should continue online. Participation means that you will learn also from each other.

Finally, let us turn to the less important issue of Grades.
There are 12 online quizzes of half an hour each.
In addition, students are required to write a 10-page book report and to make a 10 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%
and oral presentation	5%
Weekly (online) quizzes:	20%
Final Examination:	25%

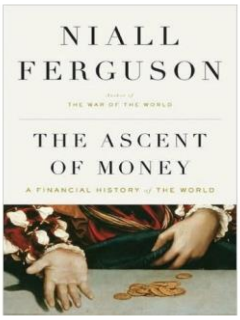
Textbook: Charles Kindleberger, *Manias, Panics, and Crashes, A History of Financial Crises* (Any edition before 2001). Copies available on Amazon for less than a dollar!!

John Komlos, *What Every Economics Student Needs to Know*, Chapter 15 has an overview of the recent financial crisis that you should look at. I put three copies on reserve with 1 day borrowing privilege.

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

"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.

Weeks 1-2. Introduction to financial crisis. Bubbles recurring: The Tulip Mania of 1637, the South Sea Bubble of 1720, and the Mississippi Company Bubble of 1720.



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

Watch on PBS*: The Ascent of Money Episode 3: Blowing Bubbles:* http://watchdocumentary.org/watch/the-ascent-of-money-episode-3-blowing-bubbles-video_a2420c871.html

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

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Week 3. The Kindleberger-Minsky Model of Financial Crisis.

Read: Charles Kindleberger, *Manias, Panics, and Crashes, A History of Financial Crises* (1977), Chapters 1-3, and 12.

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

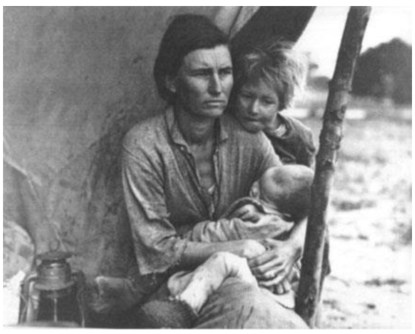
Watch the "Bank-Run" scene in the 1946 movie "It's a Wonderful Life":
http://www.youtube.com/watch?v=qu2uJWSZkck

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

Week 4. Capitalism on Trial: The Great Crash

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 5. The Great Depression (Cont'd)

Watch: Milton Friedman, Free to Choose, Vol. 3, The Anatomy of a Crisis
http://video.google.com/videoplay?docid=-5329526746115377061#

Week 6-7. Homo-Oeconomicus Blowing Bubbles: Economic Psychology

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

Watch: Kahneman' Noble Prize lecture:
http://nobelprize.org/mediaplayer/index.php?id=531

Week 8: Deregulation and market instability at the turn of the 21st century

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.

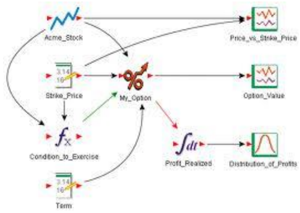
Week 9-10. Greenspan's double bubble: Dot-coms and the Great Meltdown

Read: 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

Week 11-12. The Financial Engineers meet asymmetric information



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 receiving the Nobel Prize: http://nobelprize.org/mediaplayer/index.php?id=159

Watch: Joseph Stiglitz's Nobel Prize lecture on Asymmetric Information http://nobelprize.org/mediaplayer/index.php?id=507

"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

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

$$c = [S - \mathrm{PV}(d)]N(x_1) - \mathrm{PV}(k)[N(x_2)]$$

where

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

and

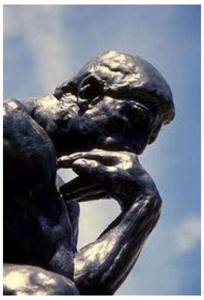
$$x_2 = \frac{\ln\left(\frac{S - \mathrm{PV}(d)}{\mathrm{PV}(k)}\right)}{\sigma\sqrt{T}} - \frac{1}{2}\sigma\sqrt{T}$$

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

Watch: Nouriel Roubini on the future of finance:
http://fora.tv/2010/05/13/Nouriel_Roubini_A_Crash_Course_in_the_Future_of_Finance