Financial Meltdown: Past and Present  
FALL 2019

Marc Flandreau  
HIST 131-401/ECON 028-401  
**Tuesday/Thursday 12-1:30**  
Stiteler B26

Marc Flandreau, mfl@sas.upenn.edu  
Graders: Lila Goldenberg, lilagold@sas.upenn.edu, Alex Royt, alexroyt@sas.upenn.edu  
Marc Flandreau's Office Hours: Tuesdays 1:45-2:45, (CH215A)

Course Overview:

The subprime crisis in 2008 and the subsequent debt crisis in Europe were just the latest in a long series of episodes of financial turmoil spanning several centuries. This course will take stock of the succession of financial meltdowns (going back to the Tulip-mania in the 17th century all the way to the Bit-coin mania). It will emphasize the repetition of patterns, but also the existence of significant differences across individual crises. The goal is to convey through case studies and inductive reasoning an understanding of the logic of financial meltdowns.

Special attention will be paid to historical evolutions and “policy responses,” including market reform, central bank intervention and regulations. Economic history is increasingly recognized as a crucial source of policy advice and is invoked with growing frequency in public debates but does it speak in one voice? In particular, the subprime crisis in 2008 and after has generated a demand for "historical perspective" that would improve the understanding of the causes of financial turmoil and facilitate the prevention of comparable catastrophes.

This course offers a review of the principal features of a number of financial crises. It provides historical insights that shed light on crucial aspects of financial disasters. These insights inform economic ideas at the same time they are informed by economic ideas. As a result, we will spend some time discussing economic theories in an informal and intuitive way, especially inasmuch as this helps understand historical processes.

This is an interdisciplinary course, engaging with topics pertaining to history, economics, law and politics or political science. Students with the most diverse backgrounds are welcome. They are expected to benefit from this course through acquiring a concrete knowledge of the historical evolution of fundamental
institutions of financial capitalism. Ultimately, students enrolling in this course are expected to achieve proficiency in historically informed discussion of the mechanisms that were played out in the subprime crisis and beyond.

The course is self-contained, in that students need not have a prior training in economics, history, or finance. The goal is to develop a fact-based and historically-rooted understanding of the mechanisms of financial speculation and panics. Ultimately, students enrolling in this course are expected to achieve a command of the history of financial turmoil. Students interested and concerned about their ability to follow the course are encouraged to contact the instructor.

Course requirements

1. Involvement. It is assessed, among other things, through students posting every week before Sunday midnight, one paragraph about what they have learnt during the week. The goal is not to simply upload a brief summary. Instead, students are expected to engage with one question of their choice. To allow for students joining in after the start of the semester, posting is only required from registered students until the end of September. After this, there is only on weekly opt-out, allowing for exceptional circumstances; Participation during debates, reports etc. also play a role (20%).

2. Midterm exam. To be administered on October, 9 2018 (15%).

3. Team work. Commentary of documents, Reports, etc., (group grading, student receive group’s grade) (30%)  

4. An in-class final exam during exams week. Upenn website currently indicates that courses meeting 12:00 Tuesday-Thursday will have the exam Tuesday December 17, 12:00 p.m. - 2:00 p.m. (HOWEVER THIS IS A PROVISIONAL DATE) (35%)

Course organization:

Each week will be broken down into two parts. The dates given below for the “week” corresponds to the date of the Monday of that week. Meetings take place on Tuesday and Thursday.

The first meeting (Tuesday) usually consists in a lecture devoted to an episode of financial turmoil. It has assigned reading (shown as “background reading” marked with an asterisk “*”). Additional readings are given for reference, in order to enable more strongly motivated students to deepen their understanding, but these are not mandatory readings.

The second meeting (Thursday) provides an opportunity to add perspective in a variety of ways and develop additional skills. We will project documentaries, learn how to discuss historical documents, organize debates, listen to guest lecturers, etc.

Reference works (available in the Van Pelt reference area):

Kindleberger, Charles P. Manias, Panics and Crashes. A History of Financial Crises is an excellent reference book. The version you will find online on the library website (ebook) is the sixth edition, 2011, published with Palgrave Macmillan. It is revised by Robert Z. Aliber and has the advantage of covering the crisis of 2008. However, I would still recommend using an earlier version – any of those with Kindleberger alone: 1978, 1989, ... -- which you can buy online at a cheap price. I just saw one on Abebooks, free shipping,
Neal, Larry, *A Concise History of International Finance*: From Babylon to Bernanke (Cambridge, Cambridge University Press, 2015). This is an interesting resource to use for students who wish to boost their understanding of the broad history of financial capitalism. It is not required reading at all, however.

**Schedule**

**PART I. THE MECHANICS OF CHAOS**

**Week 1.** Week of August 26. **Financial Crises in History and Theory**

*First Meeting (August 27):* Perspectives on financial crises: Charles P. Kindleberger’s Theory of Financial Crises.


**Week 2.** Week of September 2. **Of Bulbs and Bubbles: The Tulipmania**

*First Meeting: “Bubble!” – The Case of the Tulip-Mania*

- Background reading:

*Second Meeting: Testing for Bubbles*


**Also:**

**Week 3. Week of September 9. Driving a Bubble: Politics, Society and Speculation**

**First Meeting (September 10):** John Law and the Mississippi Bubble (18th century)

Also: Larry Neal, *The Rise of Financial Capitalism, International Capital Markets in the Age of Reason,* Cambridge: CUP, 1993, Chapters 4 and 5 (and appendix to chapter 4) on international aspects of the Mississippi Bubble:

**Second Meeting (September 12):** GROUP WORK: How to Read a Historical Document. Teams produce small reports. Text: John Law on John Law

**Week 4. Week of September 16 Why Do Crises Spread?**

**First Meeting (September 17):** The Problem of the International Financial Architecture.

**Second Meeting (September 19):** The Crisis of 1763


**Week 5. Week of September 23 Sovereign Debt Crises**

**First Meeting (September 24):** The First Foreign Debt Bubble – And the Next Ones...

**Second meeting (September 26):** GROUP WORK – commentary of a historical document and class discussion: Intermediaries’ Reputation and Sovereign Debt Crises
Week 6. Week of September 30. Preparation for mid-term
First Meeting (October 1, 2019): Review session
Second Meeting (October 3, 2019): No Meeting
Lila Goldenberg and Alex Royt are available to students with further questions on how to train for the exam.

Week 7. Week of October 7 Mid-Term
First Meeting (October 8): Mid-Term
Second Meeting (October 10): Fall Break (October 10-13)

PART II. POLICY RESPONSES

Week 8. Week of October 14 Dealing with the Culprits
First Meeting (October 15): The New Deal and the “Banksters”


First meeting (October 22): Trading Risks in the London Stock Exchange

Second meeting: (October 17): A Case study: The Failure of Moses Montefiore (1806) (documents/group work).

Week 10. Week of October 28: Central Banking
First meeting (October 22): The Emergence of the Lender of Last Resort in Britain, in 1866.


Week 11. Week of November 4. Rating Agencies
First Meeting: Rating Agencies: What for?


Second Meeting: Credit Rating Agencies and the Financial Crisis of 2008 Viewing of interviews, and debate

PART III. MODERN MESSES

Week 11. Week of November 11 Twin Crises
First Meeting (November 12) Two Views on the German Crisis of 1931


CAREFUL!! CHANGE OF VENUE!!!: ROOM: COLLEGE 200

Week 12. Week of November 18: The East Asian Crisis
First Meeting (November 19): The Sub-Prime Crisis: Conflicting Diagnoses

Second Meeting: Investing in distressed markets: History, present: Students discuss reports and learning from previous conference.
Week 13. Week of November 25: Understanding the Rise of Sub-Prime Securities

First Meeting: (November 26) Michael Milken and the Case of Junk Bonds
Chancellor, Edward, “Cow Boy Capitalism from Bretton Woods to Michael Milken,” chapter 8 of The Devil Takes the Hindmost.
Second Meeting: Viewing of Inside Job, by Charles Ferguson. (Students can skip meeting if they watch it at home)


Week 14. Week of November 26 The Sub-Prime Crisis in Historical Perspective

First Meeting (November 27): The Sub-Prime Crisis: Conflicting Diagnoses

Week 15. Week of December 2: Review, exam;
First Meeting (December 3): Review Session with Professor Flandreau
Second Meeting (December 5): Reading day or final exam (students majority decision). Officially scheduled exam: Tuesday December 17, 12:00 p.m. - 2:00 p.m.