FINANCIAL CRISES, BUBBLES AND CRASHES
Hans-Joachim Voth

Description:
Financial crises are a recurrent feature in modern economies. They were as common in the 19th century as they are today. This course examines financial crises, banking collapses, and credit crunches over the last 200 years. Starting with the subprime crisis, it analyses underlying factors that generate instability in financial markets. Using a mix of recent and historical episodes, the course examines the causes and consequences of banking crises and of asset price bubbles, and concludes with a discussion of policy implications.

Table

<table>
<thead>
<tr>
<th>Problem Sets</th>
<th>Links</th>
</tr>
</thead>
<tbody>
<tr>
<td>* starred readings will receive particular emphasis in class.</td>
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</tbody>
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Background Readings


1 Introduction and Overview: Financial Crises, Crashes and Bubbles

[lecture notes]


2 Bubbles [lecture notes]

Theoretical background

236-256.


**Bubbles and Liquidity**

* Hong, Harrison, Jose Scheinkman and Wei Xiong, 2006, "Asset Float and Speculative Bubbles", Journal of Finance


**Dotcom Mania**


**The South Sea Bubble**


**1929 and the 20s boom**


Experimental evidence


3 Banking Crises and Credit Booms gone wrong [lecture notes]

Theory and stylized facts


The Subprime Crisis [for a light-hearted but well-researched look, watch Bird+Fortune 1 or B+F2]


The Great Depression and Financial Stability

Bernanke, Ben, 1983. “Nonmonetary Effects of the Financial Crisis in


4 Sovereign Debt Crises, Exchange Rates, and Contagion [*lecture notes*]

**Contagion**


**Globalization and Financial Crises in Emerging Markets**


**East Asia, Argentina and Brazil**


Olivier Blanchard, *Fiscal Dominance and Inflation Targeting*, NBER.
5 Policy Implications: Central Banks and Asset Prices [lecture notes]
Frederic S. Mishkin and Eugene N. White, 2003. "Stock Market Bubbles: When Does Intervention Work?" Milken Institute Review: 44-52. [requires creation of an online account with Milken, which is free of charge]

Problem Sets

<table>
<thead>
<tr>
<th>No</th>
<th>Question</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>How can bubbles exist? Contrast the Brunnermeier-Abreu view with the Allen-Gale one. Are they compatible?</td>
<td>23.2.</td>
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<td>2</td>
<td>How rational were stock prices in 1929?</td>
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2 prices in 1929?
3 In the Diamond-Dybvig setup, can you have a safe bank that is still useful?
   Did bank instability simply reflect poor economic performance during the
4 Great Depression? Pick two papers from the reading list, and use them to maximum effect to argue your case
5 What are the main similarities and differences between the Asian financial crisis and the Great Depression?

Links

This is just a collection of links that I find useful in tracking the current crisis. It's not meant to be comprehensive. Check them out and let me know if you have other ideas:

- Econbrowser
- Brad deLong's webpage
- St. Louis Fed recession tracker
- Survey of Consumer Finances
- CEPR (a mixed bag, but some policy-relevant stuff)
- Krugman