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Macro-economic & Banking Crises

Seminar (6 credits)

April to July 2014

Students in this Master's level seminar are expected to write and present a paper on a topic of their choosing. There will be no lectures, and students are expected to discover issues on their own, seeking help when needed; so students should already know something about macro-economics and banking, and the seminar will allow them to explore issues further. The best topic is one that interests you, and the topics listed in this outline may trigger other ideas. Researching the topic and preparing the paper will help the student learn to distinguish cause from symptom, and *intended* from *actual* effect of any policy. Critical thinking, clear writing and discussing different points of view in a constructive and polite setting will be emphasised. Discussions with your class mates (and with me) would be helpful, and these exchanges could be in person, by telephone, or by e-mail.

The deadline for registration in, and/or withdrawing from, the seminar via FlexNow is **May 9, 2014**. Other important dates to remember are: (1) **Friday April 25, 2014** for the a *one page (tentative) proposal* to my e-mail (listed above, and copied to my Teaching Assistant listed below) that states (i) the question you would try to answer, (ii) the data &/or literature you would examine, and (iii) a (tentative) conclusion you expect to draw; and (2) our **first meeting on May 2-3, 2014** to discuss all these proposals that I will circulate to all seminar participants so each knows what others are working on. Students may revise, amend – or even completely change – the proposal (*length limited to 3 pages*) and **re-submit it to me by May 9 for approval**.

The **completed paper** of 15 pages¹) **is due by Friday, July 4**. These completed papers will also be circulated to all seminar participants, and each paper will be assigned to one student for comment at the seminar on **July 18-19**. The commentator and author may (but are not required to) discuss issues bilaterally before the seminar meets: it may help to clarify findings and allow the author to prepare a response. Each student will present their paper in 20 minutes, followed by the assigned student's comments for 5 minutes before being open for discussion by all participants. All students are expected to fully participate in both meetings of the seminar.

Carlos Villalobos is the Teaching Assistant. His room number is OEC 2.145; telephone is 0551-398167; and e-mail is cvillal@uni-goettingen.de

Examination & Grades

¹ Legible with Times Roman 12 point font, 1.2 to 1.5 line spacing and adequate margins.

The grade will be based on the paper you submit and present (80 %) and the remaining 20% of the final grade will be for your **constructive** comments on another student's paper that was assigned **plus** on other papers presented at the July 18-19 seminar.

Helpful Readings

There is a vast and growing literature on crises, and some that I have come across (there may be others that are better) are listed here.

Books: (in no particular order). Any mishap has multiple contributing factors: bad roads, sleepy driver, excessive speed, poor visibility etc. What one chooses to emphasise often reflects one's ideology: market failures, inept regulation etc. The coverage, accuracy and ideological perspective vary considerably, and be aware of this when reading any book.

1. Richard Mishkin's *The Economics of Money, Banking and Financial Markets* (Prentice Hall 10th edition, 2012)² is a good textbook to begin.
2. Peter J. Montiel *Ten Crises* (Routledge, 2013) ISBN-10: 0415539730 | ISBN-13: 978-0415539739. A chapter is devoted to each of the 10 crises described: the 1982 Chilean crisis, the 1992 ERM crisis, the 1994 Mexican crisis, the 1997 Asian crisis, the 1998 Russian crisis, the 1999 Brazilian crisis, the 1999 Ecuadorian crisis, the 2000 Turkish crisis, the 2002 Argentine crisis, and the 2008 crisis in Iceland. A concluding chapter sums up the lessons the author believes are important.
3. Anat Admati and Martin Hellwig *The Banker's New Clothes: What is Wrong with Banking, and What to Do about It* (Princeton University Press, 2013) ISBN-10: 0691156840 ISBN-13: 978-0691156842.
4. Carmen Reinhart and Kenneth Rogoff *This Time is Different: Eight Centuries of Financial Folly* (Princeton University Press, 2011) ISBN-10: 0691152640 ISBN-13: 978-0691152646
5. Alan S. Blinder *After the Music Stopped: The Financial Crisis, the Response and the Work Ahead* (Penguin Books, 2013) ISBN-10: 014312448X ISBN-13: 978-0143124481
6. Ben S. Bernanke *The Federal Reserve and the Financial Crisis* (Princeton University Press, 2013) ISBN-10: 0691158738 ISBN-13: 978-0691158730. Based on lectures available on You-tube.
7. Charles P. Kindleberger, Robert Z Aliber *Manias, Panics & Crashes: A History of Financial Crises* (Palgrave, Macmillan, 6th edition 2011) ISBN-10: 0230365353 ISBN-13: 978-0230365353. An old classic, updated but clearly dated.

² Earlier editions are cheaper and would serve. Other textbooks also cover the same material, but each author emphasizes different aspects of the crises.

8. Simon Johnson and James Kwak *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown* (Vintage, 2011) ISBN-10: 030747660X ISBN-13: 978-0307476609
9. Randall S. Kroszner, Robert J. Shiller and Benjamin M. Friedman *Reforming U.S. Financial Markets: Reflections Before and Beyond Dodd-Frank* (MIT Press, 2013)

Non-academics have also written good books on the subject: often more readable and insightful.

1. Sebastian Mallaby *More Money than God: Hedge Funds and the Making of a New Elite* (Penguin Books, 2011) ISBN-10: 0143119419 ISBN-13: 978-0143119418
2. Michael Lewis *The Big Short: Inside the Doomsday Machine* (W.W.Norton & Co. 2011) ISBN-10: 0393338827 ISBN-13: 978-0393338829. Michael Lewis is a good writer and has written other insightful books (*Liar's Poker* was his first narrating his experience at Salomon Brothers) and articles.
3. Roger Lowenstein *When Genius Failed: The Rise and Fall of Long Term Capital Management* (Random House, 2001) ISBN-10: 0375758259 ISBN-13: 978-0375758256

Articles and papers:

The IMF's evaluation in 2003 of its own role in the crises in Indonesia, Korea and Brazil is among the best analyses I have read:

<http://www.ieo-imf.org/ieo/files/completedevaluations/07282003main.pdf>

The 2001 crisis in Argentina, and the IMF's role, are examined in:

<http://www.ieo-imf.org/ieo/pages/IEOPreview.aspx?img=i6nZpr3iSIU%3d&mappingid=n0lR%2bQCs07M%3d>

The 2008 "global" financial crisis has spawned many papers and solutions, and *The Journal of Economic Perspectives* of Winter 2011 (Vol.25 No.1) has several articles, including one of Vincent Reinhart.

Gary Gorton (2009) "The Subprime Panic" *European Financial Management*, Vol.15, No.1 pp 10-46

Robert E. Hall (2010) "Why Does the Economy Fall to Pieces after a Financial Crisis?" *Journal of Economic Perspectives* Vol.24, No.4 pp 3-20.

Fredrick Mishkin (2011) "Over the Cliff: From the Subprime to the Global Financial Crisis" *Journal of Economic Perspectives* Vol.25, No.1 pp49-70.

Andrei Shleifer and Robert Vishny (2011) “Fire Sales in Finance and Macroeconomics” *Journal of Economic Perspectives* Vol.25, No.1 pp 25-48.

Mishkin’s report on Iceland before the crisis:

<http://blogs.ft.com/economistsforum/2010/10/the-economists-reply-to-the-inside-job/#axzz1jzggq7tC>

His awkward interview with “Inside Job”

<https://www.youtube.com/watch?v=5msV13oZI4U>

Director’s rejoinder to Mishkin

<http://blogs.ft.com/economistsforum/2010/10/the-director-of-inside-job-replies/#axzz1jzggq7tC>

Samuel G. Hanson, Anil K Kashyap, and Jeremy C. Stein (2011) “A Macroprudential Approach to Financial Regulation.” *Journal of Economic Perspectives* Vol. 25, No.1. pp 3-28.

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

is a YouTube account of the collapse of Lehman Brothers.

Possible Topics for Student papers:

1. Could the Greek crisis have been averted?
2. Why Ireland is recovering faster than Greece?
3. Did Spain’s crisis spread to Portugal, or are they independent?
4. Could Germany have prevented the Greek down turn?
5. Is China the next the banking burnout?
6. Do global banks cause global downturns?
7. Should (could?) governments co-ordinate their policies to prevent crises?
8. Do distribution issues hamper crisis management?
9. Would non-banking intermediation reduce vulnerability to crises?
10. Could Cyprus-style “bail-ins” have been better for Greece?
11. Does banking regulation make banks more crisis-prone?
12. Could Europe have learnt from the 1997 Asian crisis?
13. Spanish bankers versus depositors versus borrowers: Distribution issues.
14. Is the euro’s over valuation impeding Spain’s recovery?
15. Euro over valuation or worker laziness impeding Greek recovery?
16. Is Germany benefiting from Euro undervaluation?

This list of paper topics is meant to trigger ideas of your own. [end]