

Economics 196

Research Discovery Seminar: Financial Crises - Morals and Markets

The principal aim of this research “discovery seminar” is to develop the skills and techniques for carrying out a substantive original research project in economics with a focus on financial crises. This course is open to majors and non-majors and will include hands-on, experiential, collaborative learning and research activity on the seminar topic. Along the way, students will learn to evaluate scholarly literature, formulate and model a hypothesis, locate data and test the hypothesis, write an elegant paper and give a convincing presentation. This course provides undergraduate students with an introduction to the world of scholarly research.

The topic of this seminar explores the reasons behind economic bubbles and crashes since the Great Depression and considers the different responses of governments and central banks to these fluctuations. This is an ideal course for anyone who wants to learn about economic theory and philosophy, bubbles and crashes, research on financial crises, and the policy responses and moral issues. We will use a broad range of theories and empirical tools to critically evaluate, compare and judge which theories provide answers to the phenomena that constitute our economies.

Requirements: (i) four assignments (20% of grade), (ii) participation, quizzes, and presentation (20% of grade), (iii) midterm (35% of grade), and (iv) research paper (25% of grade).

**Meeting Hours:** Tuesday and Thursday, 10:00am-11:45am  
Room: Crown Classroom 202

**Office Hours:** Monday 10:00am-12pm or by appointment, 405G Engineering 2  
(Phone x94174; Email: [fischer@ucsc.edu](mailto:fischer@ucsc.edu))

**Special Dates:**

Assignment 1	(4/7) Introduction and 3 Topics
Assignment 2	(4/14) Obtaining and Graphing Data Exercise
Assignment 3	(4/28) Financial Crisis Analysis Exercise
Assignment 4	(5/5) Research Proposal
Midterm	(5/12)
Student Presentation	(5/28, 6/2, 6/4)
Research Paper	(6/11) by 10am email: <a href="mailto:fischer@ucsc.edu">fischer@ucsc.edu</a>

**Prerequisites:**

Econ 2 and either: AMS 5, AMS 7/7L, Econ 113, Psych 2, Socy 103A or CMPE 7

**Required Books:**

Friedman, Daniel and Daniel McNeill. Morals and Markets: The Dangerous Balance. 2<sup>nd</sup> Edition. 2013. Palgrave Macmillan. New York, NY.

Wolf, Martin. The Shifts and the Shocks: What We’ve Learned – and Have Still to Learn – From the Financial Crisis. Penguin Press. 2014. New York, NY.

### **Assignments:**

This course has several assignments that will help students to develop the theoretical and empirical tools needed to understand and evaluate the financial crisis literature and to write their own research paper. Students are expected to attend and participate in all class sessions and complete all assigned reading before class. Students are encouraged to share ideas and help each other but work must be original and completed independently.

**Research Paper:** Each student will be responsible for writing a paper, approximately 6-8 double-spaced pages in length, excluding tables, charts, and figures. The precise nature of the paper will depend on student background and chosen topic of interest but should fall into one of three categories: (1) a case study of a particular country or group of countries with respect to a financial crisis and the policy response by the government and/or central bank; (2) an empirical analysis of a financial mania, bubble, or crisis; (3) examination of financial crises in relation to themes by Friedman/McNeill, Wolf, Minsky, or Kindelberger. In all three cases, empirical research with data is important. Papers count for 25% of the final grade and are due 10am on June 11.

**Student Presentation:** The last three class sessions will be used for student research paper presentations. Each student will present a version of their paper to the class. Student presentations should be no more than 10 minutes in length and followed by 5 minutes of questions and answers from the floor. Use of slides is encouraged. Students will submit written comments on the other presentations. More details to follow. Presentations will occur May 28, June 2, and June 4.

All written assignments should be submitted electronically and as a paper copy so that I can return with comments. The following four assignments will help students develop their research paper:

1. **Introduction and 3 Topics:** In this assignment each student will: (1) introduce themselves to me in 300 words and include information about their background, interests, and whatever they think is relevant and (2) on a separate page students will write three ideas for a paper, each with a 100 word description. This is a first attempt at brainstorming and to get us thinking about research ideas. Due April 7.
2. **Obtaining and Graphing Data Exercise:** In this assignment students will become familiar with a variety of data sources for the United States, Eurozone, Latin America, and Asia and for a variety of global issues. Students will use these data sources to generate graphs using techniques learned in the data workshop. More details to follow. Due April 14.
3. **Financial Crisis Analysis Exercise:** In this assignment students will be asked to (1) read the paper by Grosjean, Ricka, and Senik (2013) "Learning, political attitudes, and crises: Lessons from transition countries", (2) answer specific questions about the article, (3) replicate the analysis and reproduce some of the results. More details to follow. Due April 28.
4. **Research Proposal:** Each student submits a formal research proposal in writing. The written proposal should be 2 pages in length and state the research question to be answered, why the question is important, and provide an overall strategy for answering the question. A preliminary outline, list of references, and sources should be included. Due May 5.

## Course Outline

### *Week 1: Course Overview and Research Methods*

#### **Class 1 (3/31) Course Overview: Financial Crises – Morals and Markets**

Friedman/McNeill Prologue: A Tale of Two Tilts  
Chapter 1: The Savanna Code: What Good Are Morals?  
Wolf Preface: Why I Wrote This Book  
Introduction: ‘We’re not in Kansas anymore’  
\*Leijonhufvud The Economy’s Mysterious Web of Contracts

#### **Class 2 (4/2) Research Resources and Methods**

### *Week 2: Economic Theory and Philosophy, Data Workshop*

#### **Class 3 (4/7) Economic Theory and Philosophy**

Assignment 1 Due: Introduction and 3 Topics  
Friedman/McNeill Chapter 5: Blundering Back to Balance: TARP and Tear Gas (p.108-109)  
Wolf Chapter 6: Orthodoxy Overthrown  
\*Bookstaber 2012 Using Agent-Based Models for Analyzing Threats to Financial Stability

#### **Class 4 (4/9) Data Workshop**

### *Week 3: Behavioral Economics, U.S. Financial Crisis*

#### **Class 5 (4/14) Bubbles, Manias, and Crashes**

Assignment 2 Due: Obtaining and Graphing Data Exercise  
Friedman/McNeill Chapter 4: Madness, Lies, and Crashes: When Prices Run Free (p.96-99)  
\*Kindelberger Chapter 1: Bubbles, Manias, and Crashes  
\*Minsky 1982 Can ‘It’ Happen Again?

#### **Class 6 (4/16) U.S. Financial Crisis (Great Depression)**

\*Bernanke 2013 A Century of US Central Banking: Goals, Frameworks, Accountability

### *Week 4: Financial Market Development, U.S. Financial Crisis*

#### **Class 7 (4/21) Financial Market Development**

Friedman/McNeill Chapter 3: From Melqart to Zombie World: Adventures in Imbalance  
Wolf Chapter 4: How Finance Became More Fragile  
\*Rajan 2005 Has Financial Development Made the World Riskier?

#### **Class 8 (4/23) U.S. Financial Crisis (Banking and Subprime)**

Friedman/McNeill Chapter 4: Madness, Lies and Crashes: When Prices Run Free (p.85-96, 99-100)  
Wolf Chapter 5: How the World Economy Shifted  
Chapter 7: Fixing Finance  
\*Dooley 2009 Global Imbalance and The Crisis – Solution in Search of a Problem

### *Week 5: U.S. and Eurozone Crisis*

#### **Class 9 (4/28) U.S. Financial Crisis (TARP and Federal Reserve)**

Assignment 3 Due: Financial Crisis Analysis Exercise  
Friedman/McNeill Chapter 5: Blundering Back to Balance: TARP and Tear Gas (p.101-108)  
\*Haldane/Madouros 2012 The Dog and the Frisbee

**Class 10 (4/30)**                      **Eurozone Crisis**                                      **(Monetary and Fiscal Union)**  
Friedman/McNeill                      Chapter 5: Blundering Back to Balance: TARP and Tear Gas (p.110-119)  
Wolf    Chapter 1: From Crisis to Austerity

*Week 6: Eurozone Crisis*

**Class 11 (5/5)**                      **Eurozone Crisis**                                      **(Cyprus, GIPS, Greece)**  
Assignment 4 Due: Research Proposal  
Friedman/McNeill                      Chapter 5: Blundering Back to Balance: TARP and Tear Gas (p.110-119)  
Wolf    Chapter 2: The Crisis in the Eurozone  
\*DeGrauwe/Ji                                      Self Fulfilling Crises in the Eurozone

**Class 12 (5/7)**                      **Eurozone Crisis**                                      **(European Central Bank)**  
Wolf    Chapter 9: Mending a Bad Marriage  
\*FT    2014 German court refers ECB bond-buying program to European justice

*Week 7: Midterm and China's Economic Growth*

**Class 13 (5/12)**                      **Midterm**

**Class 14 (5/14)**                      **China's Economic Growth**                                      **(China)**  
Friedman/McNeill                      Chapter 6: China: Morals and the Rush to Wealth  
Wolf    Chapter 3: Brave New World  
\*Williamson                                      2011 Getting Surplus Countries to Adjust

*Week 8: Emerging Economy Crises, Morals and Markets*

**Class 15 (5/19)**                      **Emerging Economy Crises**                                      **(Mexico, Argentina, Asian Crisis, Russia)**  
\*Schularick                                      2009 Touching the Brakes after the Crash: Historical View of Reserve  
Accumulation and Financial Integration

**Class 16 (5/21)**                      **Morals and Markets**                                      **(Income Inequality, Jobs)**  
Friedman/McNeill                      Chapter 11: The World Ahead                                      (p.216-219)  
Wolf    Chapter 8: Long Journey Ahead  
\*Saez/Piketty                                      2013 Why the 1% should pay tax at 80%

*Week 9: Morals and Markets, Student Presentations*

**Class 17 (5/26)**                      **Morals and Markets**                                      **(Conclusion, Future Path)**  
Friedman/McNeill                      Chapter 11: The World Ahead                                      (p.207-216, 219-228)  
Wolf    Conclusion: Fire Next Time

**Class 18 (5/28)**                      **Student Presentations**

*Week 10: Student Presentations*

**Class 19 (6/2)**                      **Student Presentations**

**Class 20 (6/4)**                      **Student Presentations**

*Week 11: Research Papers*

**(6/11)**                                      **Research Paper Due by 10am email: [fischer@ucsc.edu](mailto:fischer@ucsc.edu)**

\* Starred readings are available on the ecommons course site.