

Professor Christopher Ragan
McGill University
Winter 2011

Economics 319B

Economic Crises: Past and Present

Topic: This course provides an introduction to economic and financial crises. It draws on lessons from historical episodes and also discusses the crisis of 2007-08.

Prerequisites: It is necessary that you have already received a passing grade in Economics 208 and 209 (or their equivalents). If you have not successfully completed these courses, you are not permitted to take this course.

Exams: There will be an in-class midterm exam, worth 40% of your final course grade. The exam will be held on Tuesday, March 1, 2011. There will be no alternative exam date. If you miss the midterm exam for any reason, your course grade will be determined solely by your performance on the final exam. There will be a 3-hour final exam scheduled during the final exam period, in April. The final exam will be worth 60% of your final course grade.

Readings: A useful reference, especially for the first two sections of the course, is C. Ragan and R. Lipsey *Macroeconomics* (published by Pearson Canada). (This book is denoted RL in the course outline.) The mandatory readings for this class (available at the Paragraphe bookstore) include:

- J.K. Galbraith, *A Short History of Financial Euphoria*
- J.K. Galbraith, *The Great Crash, 1929*
- P. Krugman, *The Return of Depression Economics and the Crisis of 2008*
- Conference Board of Canada, *Crisis and Prevention: Lessons from the Financial Meltdown and Recession*
- “A Beginner’s Guide to the Stock Market”
- “The U.S. Housing Collapse and the Financial Crisis of 2007-2008”

WebCT page: A WebCT page for this course will post announcements, grades and extra readings.

Contact: My office hours are Tuesdays and Thursdays, 1:30 pm – 2:30 pm. Please feel free to drop by and chat (my office is Leacock 321-C). If this time is not convenient, please send me an email at Christopher.ragan@mcgill.ca to make an appointment.

Course Outline

Section 1: Review of Core Macro Material (2 weeks: Jan 6, 11, 13, 18)

- the Keynesian Cross
- money markets
- the AD/AS model
- monetary and fiscal policies
- the role of exchange rates

Readings: RL Chapters 21-24, 28-29, 35

Section 2: Primer on Financial Markets (2 weeks: Jan 20, 25, 27)

- the role of financial markets
- introduction to the stock market
- how bonds work
- banking basics (including mortgages and deposit insurance)

Readings: RL Chapter 27
“A Beginner’s Guide to the Stock Market”

Section 3: Economic/Financial Crises Through History I (2 weeks: Feb 1, 3, 8, 10)

- Tulipomania, South Sea Bubble, et al.
- The Great Crash and Depression

Readings: J.K. Galbraith, *A Short History of Financial Euphoria*
J.K. Galbraith, *The Great Crash, 1929*

Section 4: Economic/Financial Crises Through History II
(2 weeks: Feb 15, 17, Mar 3, 8)

- Latin American problems, 1970s and 1980s
- Japan's "lost decade", 1980s and 1990s
- The Asian Crisis, late 1990s

Readings: P. Krugman, *The Return of Depression Economics* (Chapters 1-5)

Section 5: The 2007-08 Financial Crisis
(2 weeks: Mar 10, 15, 17, 22, 24)

- subprime mortgages, leverage, global savings glut, and other elements
- the U.S. housing collapse
- the credit crunch and the financial crisis

Readings: P. Krugman, *The Return of Depression Economics* (Chapters 6-10)
"The U.S. Housing Collapse and the Financial Crisis of 2007-2008"
CBC, *Crisis and Intervention* (Overview chapter)

Section 6: Policy Responses, Policy Lessons
(2 weeks: Mar 29, 31, Apr 5, 7)

- Canadian and international policy responses
- monetary, fiscal, and financial policies
- the ongoing drive for better regulation
- what is "financial stability"?

Readings: CBC, *Crisis and Intervention* (all Chapters)
TD Bank, "Financial Regulation Reform: A Myriad of Double-Edged Swords"
(search www.td.com)
C. Freedman and C. Goodlet, "Financial Stability: What it is and why it matters"
(search www.cdhowe.org)
C. Ragan, "A Federal Budget Designed for the Times: The *Economic Action Plan* of 2009" (posted on the course WebCT page).