
PSC 4275-003

Spring 2021

Politics of Financial Crises

Day/Time: M/W 3:25-4:40pm

<https://elearning.villanova.edu/>

Room: Connelly Center CINEM ([Zoom link](#))

Instructor: Ryan Weldzius, Ph.D.

Office: SAC 257

Office Hours: Th 4–7pm. [Appointment sign-up](#)

Office hours [Zoom link](#)

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COURSE DESCRIPTION:

This course will investigate the origins of, and political responses to financial crises (in particular, sovereign debt, banking, and currency crises). The recent backlash against globalization provoked by populist movements in advanced economies is not a new phenomenon. Populist movements arose following the Long Depression in the late 19th century and the Great Depression in the 20th century, which provide historical parallels for the causes and responses to the 2007-2008 global financial crisis. However, the global economy is more intertwined than before, with capital moving freely between countries, goods produced along interconnected supply chains, and a local virus outbreak morphing into a global pandemic in a matter of weeks. Using both historical and contemporary data, the central question we will address in this course is, “Is this time different?”

Core Topics

1. (Ir)rationality of financial markets
2. Consequences of global capital flows
3. Sovereign debt and serial default
4. Vulnerability (or resilience) to banking crises
5. Global imbalances and macroeconomic adjustment
6. Political responses to financial crises

Course goals

1. Sharpen analytical skills (including use of quantitative data)
2. Understand the interplay of politics and economics
3. Compare the Covid-19 economic crisis to previous crises

LEARNING METHODOLOGY:

To understand any of this, we will need a rudimentary grasp of international finance, international economics, and international relations, which will be given primarily in the course lectures. There is no requirement for prior knowledge of these fields of study, thus we will work through the ideas and theories at a slow pace. You will then apply these theories to specific crises in two group projects and individual writing assignments.

Course modality: hybrid

Our classes will be a mixture of in-person lectures and online activities. Our first two weeks will be held online in order to ensure a safe return to campus. Weeks 3, 7, 8, and 12 will also be online due to group assignments that would not allow for proper social distancing (Weeks 3, 12), as well as a mid-semester break (Weeks 7, 8). Weeks that will be online are highlighted in yellow on the course schedule below. The remaining eight weeks will be in person.

Class attendance and participation (10%)

Our in-person classroom sessions will combine a mix of lecture and discussion. Class slides will be made available after each session. Class attendance and participation will count towards 10% of your final grade. This can be the difference between an A- and B+, so be sure to attend class and participate as much as possible.

Covid-19 protocol:

- You must wear a face covering in the classroom at all times.
- There will be **no** eating or drinking in the classroom (if you need to drink coffee or water, please excuse yourself to the hallway).
- You must socially distance at all times.
- You may not move chairs/desks/tables from their marked area.

Online group projects (10%)

You will engage in two group projects during Weeks 3 and 12, which will be done entirely online in order to ensure proper social distancing.

Critical Analyses (30%)

Three short essays (< 3 pages, double-spaced) that analyze readings, describe financial crises not discussed in class, and explain material using quantitative data. See Weeks 2, 5, 10.

Midterm Essay (20%)

A short analytical essay on a debt crisis of your choosing. See Week 7.

Final Essay (30%)

I will give the final analytical essay prompt during Week 13 (in case you wanted to start your essay early). The essay will require you to draw upon the material from the entire course and apply it to the current Covid-19 economic crisis. 8-10 pages, double-spaced.

READINGS:

The course readings will be drawn primarily from scholarly research articles and two academic books on the history and political economy of financial crises. All readings (not from the assigned books) will be made available on the course webpage or links will be available on the syllabus.

- Carmen M Reinhart and Kenneth S Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press, 2009. [henceforth, **R&R**]
 - Online version available [here](#).
- Mark Copelovitch and David A Singer. *Banks on the Brink: Global Capital, Securities Markets, and the Political Roots of Financial Crises*. Cambridge University Press, 2020. [henceforth, **C&S**]
 - Online version available [here](#).

GRADES:

Grade values. Please familiarize yourself with the CLAS grade values found in the [CLAS Academic Handbook](#).

Academic Integrity. University standards on plagiarism apply to all work. Please familiarize yourself with these regulations.

Grade Appeals. You will be graded on your academic performance through multiple low-stake assessments. If you believe you received an incorrect grade, you may formally appeal it to me. The appeal will consist of a one-page typed explanation that identifies the problem and presents a reasoned argument for the proposed change. Due to FERPA rules and procedures, I will not discuss grades over email.

Electronic Devices. The use of laptops or tablets is allowed. Phones are not allowed in class. I strongly recommend that all students attempt to take notes on paper. To understand why, see this [article](#), which overviews the empirical evidence showing that students who take notes with pen and paper perform better on exams.

SCHEDULE: The weekly schedule is subject to change.

WEEK 1 [ONLINE] - Introduction

Class 1: (25-Jan-21) Introduction

- Read: the syllabus (see why, [here](#)).

Class 2: (27-Jan-21) The history of economic crises.

- Read:
 - R&R: Preface, Preamble, and Ch. 1.
 - William H Sewell. Economic crises and the shape of modern history. *Public Culture*, 24(2 (67)):303–327, 2012.

Due: nothing.

WEEK 2 [ONLINE] - (Ir)rationality of financial markets/actors

Class 3: (1-Feb-21) Are financial actors rational?

- Read: Robert Z. Aliber and Charles P. Kindleberger. *Manias, Panics, and Crashes*. Springer, 2015: Ch. 2-3 (pp. 38-77). [[link](#)]

Class 4: (3-Feb-21) Are markets efficient?

- Read: Burton G Malkiel. The efficient market hypothesis and its critics. *Journal of Economic Perspectives*, 17(1):59–82, 2003.

Due: Critical Analysis 1: Submit on Blackboard by 5pm on Friday, Feb. 5.

- Briefly describe your assigned bubble using the framework of Kindleberger. Were investors rational? Was the market efficient, and why (see Malkiel)? Include one figure/graph that explains the bubble using quantitative data (note: you do not need to create your own figure. Clearly describe what your figure/graph illustrates about the bubble. You may also use this figure in your explanation of the bubble. Be sure to properly cite any sources, including for the figure. Hint: you will find better sources using [scholar.google.com](#) rather than an open search in [google](#). Max. 2-pages, double-spaced (including your figure).

WEEK 3 [ONLINE] - Historical crises (Dutch Tulip, South Sea, Mississippi)

Class 5: (8-Feb-21)

- Group project 1: I will put you into breakout rooms with other students who researched the same historical bubble. In your groups you will:
 1. discuss which of you has the most accurate figure/graph that illustrates your bubble,
 2. discuss why this is the case, and
 3. create/develop a meme that explains your crisis.
 4. Choose one person to take notes in a shared Google doc, one person to explain the figure/graph, and the final person to explain the meme.

Class 6: (10-Feb-21) What happens when capital moves freely?

- Read: Maurice Obstfeld. The global capital market: benefactor or menace? *Journal of Economic Perspectives*, 12(4):9–30, 1998.

Due: nothing.

WEEK 4 [in person] - National governments and global capital flows

Class 7: (15-Feb-21)

- Read: Layna Mosley. *Global capital and national governments*. Cambridge University Press, 2003, Ch. 1.

Class 8: (17-Feb-21) Film screening (in class) of Great Depression film

- No readings.

Due: nothing.

WEEK 5 [in person] - Sovereign Debt Crises

Class 9: (22-Feb-21)

- Read: R&R, Ch. 2, 4 (pp. 22–33, 51–67).

Class 10: (24-Feb-21)

- Read: R&R, Ch. 5-6 (pp. 68–100).

Due: Critical Analysis 2: Submit on Blackboard by 5pm on Friday, Feb. 26.

- Analysis of R&R’s chapters on debt crises. What is the authors’ main argument? Is there a figure/graph that best illustrates this argument? Why? Be sure to explain clearly what the figure illustrates and how. Max. 2-pages double-spaced (including your figure).

WEEK 6 [in person] - Politics of Sovereign Debt

Class 11: (1-Mar-21) - Reputation costs of sovereign debt

- Read: Michael Tomz. *Reputation and international cooperation: sovereign debt across three centuries*. Princeton University Press, 2012, Ch. 1-2 (pp. 3-36).

Class 12: (3-Mar-21) - Is sovereign debt really “sovereign”?

- Read: Sarah M Brooks, Raphael Cunha, and Layna Mosley. Categories, creditworthiness, and contagion: how investors’ shortcuts affect sovereign debt markets. *International Studies Quarterly*, 59(3):587–601, 2015.

Due: nothing.

WEEK 7 [ONLINE] - MIDTERM

Class 13: (8-Mar-21)

- Review of first half of class.

Class 14: (10-Mar-21)

- No class. Open office hours to discuss midterm essays.

Due: Midterm essay: Submit on Blackboard by 5pm on Friday, March 12.

- You will research a debt crisis of your choosing and write a short analytical essay (< 5 pages, double-spaced) that explains (a) the background of the crisis, (b) if the crisis followed the Kindleberger cycle, (c) if the market or market actors were rational and/or efficient, and (d) the role of international investors before, during, and after the crisis. Debt crises from which to choose:

– Mexico, 1982

- Brazil, 1983
 - South Africa, 1985
 - Pakistan, 1995
 - Russia, 1998
 - Argentina, 2001
- Tips for a good grade: this is a midterm exam and thus it is more important to show me that you understand the course material (readings and lectures) than it is to give me an abundance of detail on the crisis, i.e., apply the theories to the crisis.

WEEK 8 - **NO CLASS MEETINGS**

Watch documentary on 2008 global financial crisis: *PBS Frontline*, 2012, [Money, Power, and Wall Street](#), Parts I-IV. (Total time: 3 hours, 47 minutes). Be sure to pay attention to:

- What government policies led to the crisis?
- What industry policies led to the crisis?
- What were the consequences of the crisis in the US and abroad?
- How did the US government respond to the crisis? Is anything different?

Due: nothing.

WEEK 9 [in person] - Banks on the Brink

Class 17: (22-Mar-21)

- Read: C&S, Ch. 1 (pp. 1-21).
- In class: primer on regression analysis

Class 18: (24-Mar-21)

- Read: C&S, Ch. 2-3 (pp. 22-87; you may skip the data appendices).

Due: nothing.

WEEK 10 [in person] - Banking Crises: Canada, Germany, and...Global

Class 19: (29-Mar-21)

- Read: C&S, Ch. 4-5

Class 20: (31-Mar-21)

- Read: “The slumps that shaped modern finance.” *The Economist*, London Vol. 411, Iss. 8882, (Apr 12, 2014).

Due: Critical Analysis 3: Submit on Blackboard by 5pm on Friday, Apr. 2.

- Analysis of C&S’s chapters on banking crises. What is the authors’ main argument? Is there a figure/graph that best illustrates this argument? Why/how? Explain the figure(s) clearly. Max. 2-pages double-spaced (including your figure).

WEEK 11 [in person] - Currency Crises

Class 21: (5-Apr-21) Intro to currency crises

- Read: R&R, Ch. 11-12 (pp. 174–198).

Class 22: (7-Apr-21) Do institutions matter?

- Read: David Leblang and Shanker Satyanath. Institutions, expectations, and currency crises. *International Organization*, pages 245–262, 2006.

Due: nothing.

WEEK 12 [ONLINE] - Politics and financial crises

Class 23: (12-Apr-21) The politics of governments’ adjustment strategy

- Read: Stefanie Walter. *Financial crises and the politics of macroeconomic adjustments*. Cambridge University Press, 2013, Ch. 2 (pp. 27-53).

Class 24: (14-Apr-21) Politics *after* crises: left or right?

- Read: Heather Boushey, Ryan Nunn, Jimmy O’Donnell, and Jay Shambaugh. The damage done by recessions and how to respond. *Recession Ready: Fiscal Policies to Stabilize the American Economy*, 2019.

– Heather Boushey is now a member of Biden’s Council of Economic Advisors.

- **Group Project 2:** in 5 small groups, discuss the ideal economic policies for the US to deal with the Covid-19 economic crisis using the chapter by Boushey et al. One student will record the major points in a shared Google doc, one student will be the spokesperson.

Due: nothing.

WEEK 13 [in person] - The 2008 Global Financial Crisis

Class 25: (19-Apr-21) I guess this time isn't so different?

- Read: R&R, Ch. 13-15 (pp. 199-247).

Class 26: (21-Apr-21) Lessons for the field of IPE

- Read: Eric Helleiner. Understanding the 2007–2008 global financial crisis: Lessons for scholars of international political economy. *Annual review of political science*, 14:67–87, 2011.

Due: nothing.

WEEK 14 [in person] - Politics, crises, and pandemics

Class 27: (26-Apr-21) Partisanship and financial crises

- Read: J Lawrence Broz. Partisan financial cycles. *Politics in the new hard times: The Great Recession in comparative perspective*, pages 75–101, 2013.

Class 28: (28-Apr-21) The lasting Covid-19 crisis

- Read:
 - Partnoy, Frank. The looming bank collapse. *The Atlantic*, July/August 2020. Online. [\[link\]](#)
 - Eichengreen, Barry. 2020. “The debt dogs that didn’t bark.” *Project Syndicate*. December 12, 2020. Online.
 - Jeanne, Olivier and Jeongwon Son. Is the US dollar shirking its “exorbitant duty”? *Peterson Institute for International Economics*. September 29, 2020. Online. [\[link\]](#)
- Course review and take-home final assigned.

Final term paper due by 11:00am on Monday, May 10, 2021.

LEARNING SUPPORT, ACADEMIC INTEGRITY, AND ABSENCES:

Office of Disabilities (ODS) and Learning Support Services (LSS): It is the policy of Villanova to make reasonable academic accommodations for qualified individuals with disabilities. Go to the Learning Support Services website ([link](#)) for registration guidelines and instructions. For physical access or temporarily disabling conditions, please contact the Office of Disability Services at (610) 519-4095 or email stephen.mcwilliams@villanova.edu. Registration is needed in order to receive accommodations.

Classroom Behavior: All students will respect each other in class and outside of class; this is a zero tolerance policy.

Academic Integrity: All students are expected to uphold Villanova's Academic Integrity Policy and Code. Any incident of academic dishonesty will be reported to the Dean of the College of Liberal Arts and Sciences for disciplinary action. For the College's statement on Academic Integrity, you should consult the [Student Guide to Policies and Procedures](#). You may view the University's Academic Integrity Policy and Code, as well as other useful information related to writing papers, at the [Academic Integrity Gateway](#) web site.

Absences for Religious Holidays: Villanova University makes every reasonable effort to allow members of the community to observe their religious holidays, consistent with the University's obligations, responsibilities, and policies. Students who expect to miss a class or assignment due to the observance of a religious holiday should discuss the matter with their professors as soon as possible, normally at least two weeks in advance. Absence from classes or examinations for religious reasons does not relieve students from responsibility for any part of the course work required during the absence. See the [Provost's policies on religious holidays](#).