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PSC 4275-001

Spring 2022

Politics of Financial Crises

Day/Time: T/Th 11:30am-12:45pm

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

Room: Bartley Hall 023A

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**Instructor: Ryan Weldzius, Ph.D.**

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**Office Hours**

Tuesdays: 10–11am, 4–5pm.

Sign-up: [Calendly](#)

Location: [Zoom](#)

### **COURSE DESCRIPTION:**

This course will investigate the political origins of and responses to financial crises. The course is split into three modules: In the first module, we will explore the role of financial markets and actors in precipitating financial crises (Weeks 1–3). In the second module, we will dig deeper into particular types of crises, in particular sovereign debt and currency crises (Weeks 4–7). In the third module, we will analyze the onset of banking crises (Weeks 9–10) and spend the remainder of the semester (Weeks 11–15) examining the 2008 global financial crises, from both an international and domestic (U.S.) perspective. Each module will end with a short writing assignment, a group presentation, and an in-class examination. 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 and actors
2. Consequences of global capital flows
3. Sovereign debt and serial default
4. Global imbalances and macroeconomic adjustment
5. Vulnerability (or resilience) to banking crises
6. Political causes and responses to the global financial crisis

### **Course goals**

1. Sharpen analytical skills (including use of quantitative data)
2. Understand the interplay of politics and economics
3. Observe similarities and differences between historical and contemporary 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. Each of you will be coming with diverse educational backgrounds, thus we will work through the ideas and theories at a slow pace. You will then apply these theories to specific crises in three individual writing assignments and group presentations. There will also be three in-class exams at the end of each module to test your comprehension of the material. Your in-class group presentations will serve to prepare you for these examinations.

Course modality: Our classes will be held in person unless otherwise specified.

Communication: Please check your email regularly for updates on the course. Due to the ongoing pandemic, the instructor reserves the right to move the lesson online within an hour of the beginning of class.

### **Class attendance, participation, and group presentations (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 7% of your final grade. This can be the difference between an A- and B+, so be sure to (a) attend class and (b) participate in our class discussions.

#### *Covid-19 protocol:*

- You must wear a face covering in the classroom at all times.
- If you are feeling ill, please contact the instructor to make alternative arrangements.
- Attendance via Zoom requires approval from the instructor before the class.
- Please familiarize yourself with the University's Covid-19 protocols for if you test positive or have been exposed.

There will be a group presentation at the end of each module, each worth 1% of your final grade. Each group member is expected to contribute to and/or speak during the presentation. As a group, you will discuss how the material from the previous module applies to your case study. The groups will change between modules based on your preferences for the particular topics.

Module 1 (1%): Tuesday, 25-Jan

Module 2 (1%): Tuesday, 22-Feb

Module 3 (1%): Thursday, 21-Apr

### **Completing Study Questions (10%)**

Each class will have a series of study questions that will help guide your reading. You will see many of these questions again on your three examinations at the end of each module. In order to ensure nobody falls behind, answering these study questions will be a part of your final grade. If you complete all of the study questions for each class on time (before 11am

on the day of class), you will receive full credit (100%). If you submitted 90% of the study questions on time, you will receive a 90% for this grade, and so on. If you are not addressing the question or if you are copying/pasting from your classmates or outside sources, this will not count for credit.

### **Critical Analyses (35%)**

Three short essays (< 3-4 pages, double-spaced) that critically analyze the readings by applying the course material to a particular crisis. See the course schedule for specific instructions.

Module 1 (10%): due by 5pm on Monday, 24-Jan

Module 2 (15%): due by 5pm on Monday, 21-Feb

Module 3 (10%): due by 5pm on Wednesday, 20-Apr

### **Examinations (45%)**

Three in-class exams will test your comprehension of the material. Each exam will be preceded by a writing assignment and group presentation; there will be at least one short essay question on each exam that comes from the group presentations, so be sure to take notes and pay attention. The exams will be a combination of multiple choice, true-false, short answer, and short essay questions. The multiple choice and true-false questions will come from the course lectures. The short answer and essay questions will come directly from the study questions from each class. At the end of the semester, I will allow anybody who would like to improve their grade on one exam to write an essay on a topic of my choice related to the COVID-19 pandemic (length dependent on which exam: Module 1, 8 pages; Module 2, 10 pages; Module 3, 12 pages); these will be due on the date of your final exam (Saturday, April 30 by 10:45AM).

Module 1 (10%): Thursday, 27-Jan

Module 2 (15%): Thursday, 24-Feb

Module 3 (20%): Tuesday, 26-Apr

### **How to get an A:**

1. Read actively. When approaching the readings for each class, be sure to take notes, highlight important parts, and most importantly, write down questions that you have on the material and ask these questions in our class meetings.
2. Think about the study questions and spend some time answering them, which will provide you with detailed notes when you are preparing for the exams.
3. Read your class notes and study question answers regularly.
4. Do not miss a class or a reading. Much of the material will build upon the material from the previous class. If you miss a reading, you will find it hard to follow the subsequent classes.

5. The writing assignments are meant for you to apply the course material to particular cases; thus the majority of your essay should be devoted to highlighting your mastery of this material.

## READINGS:

The course readings will be drawn primarily from academic books on financial crises as well as several peer-reviewed articles. All articles will be made available on the course webpage. All books are available digitally through Falvey Library. The books listed below will be read in their entirety (or nearly in their entirety), so I recommend purchasing them if you need a break from your computer screen.

1. Carmen M Reinhart and Kenneth S Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press, 2009. [[online version](#)]
2. 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. [[online version](#)]
3. Nolan McCarty, Keith T Poole, and Howard Rosenthal. *Political bubbles: Financial crises and the failure of American democracy*. Princeton University Press, 2013. [[online version](#)]
4. Daniel W Drezner. *The system worked: How the world stopped another great depression*. Oxford University Press, 2014. [[online version](#)]

## GRADES:

*Grading Scale.* 94-100, A; 90-93, A-; 88-89, B+; 84-87, B; 80-83, B-; . . . 0-60, F.

*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 in class 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.

## 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](mailto: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](#).

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**SCHEDULE:** The weekly schedule is subject to change.

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## MODULE 1 - Introduction to Financial Crises

### Class 1: (11-Jan-22) Introduction

Read: Syllabus (see why, [here](#)).

### Class 2: (13-Jan-22) The history of economic crises.

Read:

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

### Class 3: (18-Jan-22) Are financial actors rational?

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

### Class 4: (20-Jan-22) Are markets efficient?

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

### \*Due (by 5pm on Monday, 24-Jan-22): Critical Analysis 1 (10%)

Assignment: Briefly describe your assigned bubble (Dutch Tulip, South Sea, Mississippi) 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](https://scholar.google.com) and then scanning the articles for figures rather than an open search in [google](https://www.google.com). Max. 3-pages, double-spaced (including your figure; references/works cited may run onto fourth page).

### Class 5: (25-Jan-22) Group discussion on historical crises

Group project 1: I will put you into small groups with other classmates who researched the same historical bubble as you. 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 explain the crisis using the figure/graph and a second person to explain the meme.

**Class 6:** (27-Jan-22) Exam 1 - Covers classes 1–5 (10%)

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## MODULE 2 - Sovereign Debt and Currency Crises

**Class 7:** (1-Feb-22) Global capital flows and sovereign debt

Read:

- Layna Mosley. *Global capital and national governments*. Cambridge University Press, 2003, Chapter 1 (pp. 1–20 only)
- Reinhart & Rogoff, Ch. 2 (pp. 22–33).

**Class 8:** (3-Feb-22) Reputation costs of sovereign debt default

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

**Class 9:** (8-Feb-22) Sovereign (external) debt crises

Read: Reinhart & Rogoff, Ch. 4–6 (51–100).

**Class 10:** (10-Feb-22) External assistance during debt crises

Read: Axel Dreher, Jan-Egbert Sturm, and James Raymond Vreeland. Politics and IMF conditionality. *Journal of Conflict Resolution*, 59(1):120–148, 2015.

**Class 11:** (15-Feb-22) Adjustment and currency crises

Read:

- Reinhart & Rogoff, Ch. 12 (pp. 180–198).
- Stefanie Walter. *Financial crises and the politics of macroeconomic adjustments*. Cambridge University Press, 2013, Ch. 1–2 (pp. 1–21; 27-53).

**Class 12:** (17-Feb-22) Domestic debt crises

Read: Reinhart & Rogoff, Ch. 7–9 (101–138).

Listen: “[Debt Wars](#)” during Covid-19 with Barry Eichengreen on the Project-Syndicate Podcast (host: Elmira Bayrasli; 28 minutes)

**\*Due (by 5pm on Monday, 21-Feb-22): Critical Analysis 2 (15%)**

Assignment: You will research a debt crisis of your choosing and write a short analytical essay (< 4 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, (d) the role of international investors, and (e) the resolution to the crisis (external or internal). Debt crises from which to choose:

- Mexico, 1982
- Brazil, 1983
- South Africa, 1985
- Pakistan, 1995
- Russia, 1998
- Argentina, 2001

Tips for a good grade: 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.

**Class 13:** (*22-Feb-22*) Group discussion on debt/currency crises

Group project 2: I will put you into small groups with other classmates who researched the same crisis as you. In your groups you will create two slides that your group will present at the end of class (max. 5 minutes).

1. One slide has a single bullet point for parts (a)-(d) from your assignment.
2. One slide explains the resolution to the crisis (external or internal)
3. Choose one person to explain slide one, one person to explain slide two.

**Class 14:** (*24-Feb-22*) Exam 2 - Covers classes 7–13 (15%)

## SPRING BREAK

No class (*1-Mar-22*)

No class (*3-Mar-22*)

## MODULE 3 - Banking and Financial Crises

**Class 15:** (*8-Mar-21*) Banking crises I

Read:

- Reinhart & Rogoff, Ch. 10 (pp. 141–173).
- Copelovitch & Singer, Ch. 1 (pp. 1–21).

**Class 16:** (*10-Mar-21*) Banking crises II

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

**Class 17:** (*15-Mar-21*) Banking crises: empirical evidence I

Read: Copelovitch & Singer, Ch. 4 (pp. 88–123)

**Class 18:** (*17-Mar-21*) Banking crises: empirical evidence II

Read: Copelovitch & Singer, Ch. 5 (pp. 124–180)

**Class 19:** (*22-Mar-21*) Politics of US financial crisis: Intro



Read: McCarty, Poole, & Rosenthal, Introduction and Ch. 1 (pp. 1–37)

In class: Watch [Money, Power, and Wall Street](#), Part I, *PBS Frontline*, 2012.

**Class 20:** (24-Mar-21) Politics of US financial crisis: Ideology, Interests, and Institutions

Read: McCarty, Poole, & Rosenthal, Ch. 2–4 (pp. 38–116)

**Class 21:** (29-Mar-21) US financial crisis: Political bubbles

\*\* No in person meeting (away for ISA conference); treat the documentary as class time, but I recommend watching *before* the reading

Watch: [Money, Power, and Wall Street](#), Part II, *PBS Frontline*, 2012.

Read: McCarty, Poole, & Rosenthal, Ch. 5 (pp. 117–148)

**Class 22:** (31-Mar-21) US financial crisis: Historical lessons

\*\* No in person meeting (away for ISA conference); treat the documentary as class time, but I recommend watching *before* the reading

Watch: [Money, Power, and Wall Street](#), Part III, *PBS Frontline*, 2012.

Read: McCarty, Poole, & Rosenthal, Ch. 6 (pp. 153–183)

**Class 23:** (5-Apr-21) US Politics post-GFC

Read: McCarty, Poole, & Rosenthal, Ch. 7–8 (pp. 184–250)

**Class 24:** (7-Apr-21) *Global* financial crisis: did the system work?

Read: Drezner, Ch. 1–3 (pp. 1–76)

**Class 25:** (12-Apr-21) *Global* financial crisis: misperception and role of power (virtual)

Read: Drezner, Ch. 4–6 (pp. 77–175)

Course will be held virtually in case anybody is trying to get away for a longer Easter Recess.

**No Class - Easter Recess** (14-Apr-21)

**Class 26:** (19-Apr-21) Epilogue on Crises

Choose one of the final chapters (ideally your favorite of the books) to read:

- Copelovitch & Singer, Ch. 6 (pp. 181–203).
- McCarty, Poole, & Rosenthal, Ch. 9–epilogue (pp. 251–282)
- Drezner, Ch. 7 (pp. 176–191)

**\*Due (by 5pm on Wednesday, 20-Apr-22): Critical Analysis 3 (10%)**

Assignment: critique the final chapter from your chosen reading from Class 26. Questions to consider when writing your critical analysis of the book and its epilogue: What was the author(s) argument? Do the author(s) support the argument sufficiently? Does the final chapter leave the reader hopeful, sceptical, both, or neither? Based on this final chapter (and overall book), is the US or world system prepared for the next crisis (will this time be different)? Were they prepared for the 2020-21 crisis? Max. 3-pages, double-spaced (including any figures; references/works cited may run onto fourth page).

\*\* Tips for a good grade: it is more important to show me that you understand the course material than it is to share your opinion on the material. Clearly the questions ask for you to critique the work, but you should support all of your critiques with evidence.

**Class 27:** (21-Apr-21) Group review of Module 3

In-class assignment: in the same groups from Module 2, you will apply theories from Module 3 to your country cases from Module 2.

- You will create four slides that briefly outlines how your case fit into (or didn't) the following categories/themes:
  1. Banking crisis (is the financial system closer to Canada or Germany?)
  2. Did the global system work during the crisis? (think about power, interests, and ideas)
  3. How did partisanship or fiscal policy play into your crisis?
  4. How did the interests of the financial sector, trade, or agriculture

**Class 28:** (26-Apr-21) Exam 3 - Covers classes 15–27 (20%)

**Class 29:** (28-Apr-21) Course Summary and Discussion