PSC 4275-001 Spring 2023

Politics of Financial Crises

Day/Time: T/Th 4:00-5:15pm

https://elearning.villanova.edu/ Room: John Barry Hall 202A

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Office Hours
Thursdays: 1–3pm
Sign-up: Calendly
Location: SAC 257 or 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 examine in depth the 2008 global financial crisis, 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. 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

READINGS:

The course readings will be drawn primarily from academic books on financial crises as well as several peer-reviewed articles. All articles and book chapters (not from the assigned books) will be made available on the course webpage. All books are available through the university bookstore.

1. Chinn, Menzie D., and Jeffry A. Frieden. 2011. *Lost Decades: The Making of America's Debt Crisis and the Long Recovery.* WW Norton & Company.

2. Drezner, Daniel W. 2014. *The System Worked: How the World Stopped Another Great Depression.* Oxford University Press. [digital version available through Falvey Library]

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.

ASSIGNMENTS AND GRADING:

Class attendance and participation (12.5%): Our in-person classroom sessions will combine a mix of lecture and discussion. I expect you all to engage the material prior to coming to class and take part fully in all of the in-class group discussions. In order to do this well, you will need to *actively* read the assigned readings and think critically about them. It may help to take notes in the margins or to write down any questions that may arise. Note: just showing up to class will not ensure that you receive a satisfactory class participation grade. I will post lecture slides to the course Blackboard page after each session. Class attendance and participation will count towards 12.5% of your final grade.

Group presentations (7.5%): There will be a group presentation at the end of each module, each worth 2.5% of your final grade. Each group member is expected to contribute to and speak during the presentation. As a group, you will summarize the information you uncovered in your specific case studies and present this information clearly to the other groups. This material *will* be included on the exam so it will be your job to effectively convey this information to your classmates.

I recommend you use a PowerPoint presentation to summarize key points and explicitly tie it back to what you learned in the previous module. I will provide each group with 30 minutes at the beginning of class to prepare their presentations; you may find it helpful to have a preliminary discussion with your other group members via email *before* coming to class. The groups will change between modules based on your preferences for the particular topics. The dates for each presentation are:

Group Presentation 1 (2.5%): **Tuesday, 31-Jan**
Group Presentation 2 (2.5%): **Tuesday, 28-Feb**
Group Presentation 3 (2.5%): **Tuesday, 25-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. If you complete all of the study questions for each class on time (**before 3pm** 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. **I will not accept any late submissions**. 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 (30%): Three short essays (double-spaced) that critically analyze the readings by applying the course material to a particular crisis. See the course schedule for specific instructions.

Critical Analysis 1 (5%): 3-4 pages; due by **5pm on Monday, 30-Jan**
Critical Analysis 2 (10%): 5-6 pages; due by **5pm on Monday, 27-Feb**
Critical Analysis 3 (15%): 6-8 pages; due by **5pm on Monday, 24-Apr**

Examinations (40%): Three in-class exams will test your comprehension of the material from the particular module. 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 multipe 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 (and only one exam) to write an essay on a topic of my choice related to a current event (length dependent on which exam: Module 1, 8–10 pages; Module 2, 10–12 pages; Module 3, 12–14 pages); these will be due on the date of your final exam (**Saturday, May 6 by 11:00AM**).

Exam 1 (5%): **Thursday, 2-Feb**
Exam 2 (15%): **Thursday, 2-Mar**
Exam 3 (20%): **Thursday, 27-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.

CLASS POLICIES:

Grading Scale. 93-100, A; 90-92.9, A-; 87-89.9, B+; 83-86.9, B; 80-82.0, B-; . . . 0-60, F.

Late Assignments. Written assignments turned-in after the due date and time indicated will be penalized one full letter grade for each full day that it is late. Late study questions will not receive credit.

Questions on grading. I will not discuss grades via email or before/during/after class. If you feel that you did not deserve a grade, please come see me during office hours to discuss. If you believe you received an incorrect grade and would like to appeal it, you may formally do so by drafting a one-page typed explanation that identifies the problem and presents a reasoned argument for the proposed change.

Extra credit. During the semester, there may be opportunities to attend an event or speaker presentation related to the course topic. If you attend and write a two-page reaction paper, it will be accepted for extra credit. Otherwise, please see above for the grade-replacement policy for exams.

Office Hours. I am available for office hours on Thursdays between 1:00-3:00PM via Zoom or in my office (SAC 257). Please sign-up for a 15-minute time slot via Calendly. If you think you'll need more than 15 minutes, feel free to sign-up for two consecutive slots. If you cannot make these times, please write to me in advance and we will find a time that is suitable for us both.

COVID-19 protocol: 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.

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.

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.

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.

SCHEDULE: The weekly schedule is subject to change.

MODULE 1 - Introduction to Financial Crises

Class 1: (17-Jan-23) Introduction

Read: Syllabus (see why, here).

Class 2: (19-Jan-23) The history of economic crises.

Read: William H Sewell. 2012. "Economic crises and the shape of modern history." *Public Culture* 24(2): 303–327.

Class 3: (24-Jan-23) The Minsky Moment

Read: Robert Z. Aliber and Charles P. Kindleberger. 2015. *Manias, Panics, and Crashes*. Springer. Chapter 2–3

** Rank-order vote on the historical bubble you would like to research for Critical Analysis 1 (link on Blackboard)

Class 4: (26-Jan-23) Are markets efficient?

Watch: Discussion between Eugene Fama and Richard Thaler
- Link: https://youtu.be/bM9bYOBuKF4.

***Due by 5pm on Monday, 30-Jan-23: Critical Analysis 1** (5%)

Assignment: Briefly describe your assigned historical crisis (Dutch Tulip Bubble, South Sea Bubble, Charles Ponzi's Scheme) using the framework of Kindleberger. Were investors rational? Was the market efficient, and why? Include one figure/graph that explains the crisis using quantitative data or an illustration of what happened (note: you do not need to create your own figure). Clearly describe what your figure/graph illustrates about the crisis. You should 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 and then scanning the articles for figures rather than an open search in google. 3–4 pages, double-spaced (including your figure; references/works cited may run onto fifth page).

Class 5: (*31-Jan-23*) Group presentation of historical bubbles

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,

3. Create a short slideshow presentation that explains your bubble (be concise!) and how the theories from the previous weeks are represented (or not) in this crisis, and
4. Create/develop a meme that explains your crisis (include on final slide).
5. Present your crisis to your peers in the final 30 minutes of class. Each group will have 5 minutes to present and 5 minutes of questions from the class.

Class 6: (*02-Feb-23*) Exam 1 - Covers classes 2–5 (5%)

Don't forget to bring a laptop to class for your exam and be sure to have Respondus Lockdown Browser installed. If you do not have a laptop available, you can reserve one from the Falvey Library Tech Desk. If you have any technology problems, no worries! You can always take the exam on paper.

MODULE 2 - Global Capital Flows and Crisis

Class 7: (*07-Feb-23*) Global capital flows and sovereign debt

Read: Layna Mosley. 2003. *Global capital and national governments*. Cambridge University Press. Chapter 1 (pp. 1–20 only)

Class 8: (*09-Feb-23*) Reputation costs of sovereign debt default

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

Class 9: (*14-Feb-23*) External assistance during debt crises

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

Class 10: (*16-Feb-23*) COVID-19 debt crises

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

** Rank-order vote on the historical debt/currency crisis you would like to research for Critical Analysis 2 (link to be sent via email)

Class 11: (*21-Feb-23*) Currency crises and adjustment decisions

Read: https://www.cfr.org/backgrounder/currency-crises-emerging-markets

Read: Stefanie Walter. 2013. *Financial crises and the politics of macroeconomic adjustments*. Cambridge University Press. Ch. 1 (pp. 1–21 only).

Class 12: (*23-Feb-23*) Adjustment during crises

Read: Walter, Stefanie. 2016. "Crisis politics in Europe: Why austerity is easier to implement in some countries than in others." *Comparative Political Studies* 49(7): 841-873.

***Due (by 5pm on Monday, 27-Feb-23): Critical Analysis 2** (10%)

Assignment: You will research a debt or currency crisis (or both!) of your choosing and write a short analytical essay (4–5 pages, double-spaced) that explains (a) the background of the crisis, (b) if the crisis followed the Minsky 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). Include one figure/graph that explains the crisis 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. Crises from which to choose:

- Mexico, 1982
- 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 from the readings to the crisis.*

Class 13: (*28-Feb-23*) Group presentations on debt/currency crises

Group project 2: I will put you into small groups with other classmates who researched the same historical crisis as you. In your groups you will:

1. Discuss which of you has the most accurate figure/graph that illustrates your crisis,
2. Discuss why this is the case,
3. Create a short slideshow presentation that explains your crisis (be concise!) and how the theories from the previous weeks are represented (or not) in this crisis, and
4. Create/develop a meme that explains your crisis (include on final slide).
5. Present your crisis to your peers in the final 30 minutes of class. Each group will have 5 minutes to present and 5 minutes of questions from the class.

Class 14: (*2-Mar-23*) Exam 2 - Covers classes 7–13 (15%)

SPRING BREAK

No class (*7-Mar-23*)
No class (*9-Mar-23*)

**If you are unfamiliar with the events around the 2008 Global Financial Crisis, you may find it helpful to watch this *PBS Frontline* documentary from 2012: Money, Power, and Wall Street, Parts I-IV. (Total time: 3 hours, 47 minutes). And if you *are* familiar with the events, it may help to place them in time and context by listening to the individuals involved in the crisis and its resolution.

MODULE 3 - 2008 Global Financial Crisis

Class 15: (*14-Mar-23*) A GFC origin story (Part I)

Read: Chinn & Frieden, Ch. 1

Class 16: (*16-Mar-23*) A GFC origin story (Part II)

Read: Chinn & Frieden, Ch. 2–3

Class 17: (*21-Mar-23*) GFC and US bailouts (Part I)

Read: Chinn & Frieden, Ch. 4

Class 18: (*23-Mar-23*) GFC and US bailouts (Part II)

Read: Chinn & Frieden, Ch. 5

Class 19: (*28-Mar-23*) GFC becomes truly Global

Read: Chinn & Frieden, Ch. 6–7

Class 20: (*30-Mar-23*) Oops. So what now?

Read: Chinn & Frieden, Ch. 8–9

Class 21: (*4-Apr-23*) Intro to Drezner

Read: Drezner, Ch. 1–2

** Rank-order vote on the financial crisis you would like to research for Critical Analysis 3 (link to be sent via email)

No Class - Easter Recess: (*6-Apr-23*)

Class 22: (*11-Apr-23*) Why the misperception?

Read: Drezner, Ch. 3

Class 23: (*13-Apr-23*) The Role of Interests

Read: Drezner, Ch. 4

Class 24: (*18-Apr-23*) Role of Power

Read: Drezner, Ch. 5

Class 25: (*20-Apr-23*) Role Ideas and Conclusion

Read: Drezner, Ch. 6–7

***Due (by 5pm on Monday, 24-Apr-23): Critical Analysis 3** (15%)

Assignment: You will write a short analytical essay (6–8 pages, double-spaced) that either compares the 2008 GFC to (a) the Great Depression or (b) the 2020-2022 COVID-19 crisis in the US. How are they similar? How are they different? Did the crises follow a Minsky cycle? Were the market or market actors rational and/or efficient? What was the role of international investors? What was the resolution to the crises? In your answer, remember that this is a political science course and thus you should be addressing the political causes, consequences, and implications throughout your answer. For example, I am less concerned about detail on fancy financial instruments and more interested in the political causes that may have led to those fancy instruments. As before, include one figure/graph that best compares the crises using quantitative data (note: you do not need to create your own figure). Clearly describe what your figure/graph illustrates about the crises. You may also use this figure in your explanation of the crisis.

Class 26: (*25-Apr-23*) Group presentations on GFC comparisons

Group project 3: I will put you into small groups. In your groups you will:

1. Discuss which of you has the most accurate figure/graph that compares the crises,
2. Discuss why this is the case,
3. Create a short slideshow presentation that compares your crises (be concise!) and how the theories from the previous weeks are represented (or not) in this crisis, and
4. Create/develop a meme (include on final slide).
5. Present your comparative case study to your peers in the final 30 minutes of class. Each group will have **10 minutes** to present and 5 minutes of questions from the class.

Class 27: (*27-Apr-23*) Exam 3 - Covers classes 15–25 (20%)

No Class - Friday Schedule: (*2-May-23*) Course Summary and Discussion

Class 28: (*4-May-23*) Course Summary and Discussion