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Spring, 2009/2010  
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Office Hours: Wed 9am-12pm or by Appointment  
Encina Hall, West 411

**Political Science 213/313R**  
**Political Economy of Financial Crises**

Course Description

Advanced undergraduate / graduate seminar examining the political economy of financial crises. We will survey theories about the characteristics, causes, and consequences of financial crises as well as financial crisis response. We will then consider and evaluate those theories in light of major historical episodes.

Course Requirements

**Participation** (30%): You should come to class prepared to actively discuss the readings for the session.

**Final Paper** (70%): A 30 page research paper (7000-8000 words) related to the class material (Due: June 5). The instructor will provide suggested paper topics. Students will present their preliminary research to the class.

General Policies

Active participation in class discussions is required – absences must be cleared prior to the session with the instructor. Unexcused absences will result in a half letter grade reduction in the student's final grade. Late assignments will be penalized by half a letter grade each day the assignment is late.

Prerequisites

There are no formal prerequisites, but Economics 1 and PS 110C/X or equivalent class work is strongly recommended.

Readings

Readings will be made available on course work.

## **Overview of Topics**

**Week 1 (3/30)** Introduction

**Week 2 (4/6)** Overview of Financial Crises

**Week 3 (4/13)** Some Theoretical Perspectives on Financial Crisis Response

**Week 4 (4/20)** International Financial Crises

**Week 5 (4/27)** Early Crises

**Week 6 (5/4)** The Great Depression

**Week 7 (5/11)** Japan's Economic Stagnation

**Week 8 (5/18)** Role of the International Monetary Fund

**Week 9 (5/25)** The Asian Financial Crisis

**Week 10 (6/1)** Crisis of 2008

## **Week 1: Introduction**

(Get Started on the Readings for Week 2)

## **Week 2: Overview of Financial Crises**

Charles Kindleberger. 2000. *Manias, Panics, and Crashes: A History of Financial Crises*, Chapter 1 (“Financial Crisis: A Hardy Perennial”), Chapter 2 (“Anatomy of a Typical Crisis”).

Carmen Reinhart and Kenneth Rogoff. 2009. *This Time is Different: Eight Centuries of Financial Folly*. Chapter 1 (“Variety of Crises and Their Dates”), Chapter 4 (“A Digression on the Theoretical Underpinnings of Debt Crises”), Chapter 10 (“Banking Crises”).

Michael Tomz. 2007. *Reputation and International Cooperation: Sovereign Debt across Three Centuries*. Princeton: Princeton University Press. pg. 14-28, 223-233.

John Maynard Keynes. 1935. *The General Theory of Employment, Interest, and Money*. pg. 147-164 (“The State of Long-Term Expectation”).

Gary Stix. 2009. “The Science of Economic Bubbles and Busts.” *The Scientific American*. June 22.

Gary Gorton. 2009. “Slapped in the Face by the Invisible Hand: Banking and the Panic of 2007.”

International Monetary Fund. 2009. *World Economic Outlook: Crisis and Recovery*. pg. 1-8.

## **Week 3: Some Theoretical Perspectives on Financial Crisis Response**

Paul Krugman. 1999. “The Return of Depression Economics.” *Foreign Affairs* 78 (1).

Michael D. Bordo. 1990. “The Lender of Last Resort: Alternative Views and Historical Experience.” *Economic Review* (January/February).

J. Lawrence Broz. 1999. “Origins of the Federal Reserve System: International Incentives and the Domestic Free-Rider Problem.” *International Organization* 53 (1): 39-70.

Peter Gourevitch. 1984. “Breaking with Orthodoxy: The Politics of Economic Policy Responses to the Depression of the 1930s” *International Organization* 38 (1): 95-129.

Simon Johnson. 2009. “The Quiet Coup.” *The Atlantic Online*, May.

Layna Mosley and David Andrew Singer. 2009. “The Global Financial Crisis: Lessons and Opportunities for International Political Economy.” *International Interactions*.

#### **Week 4: International Financial Crises**

Lawrence Summers. 2000. "International Financial Crises: Causes, Prevention, and Cures." *American Economic Review* 90 (2): 1-16.

Carmen Reinhart and Kenneth Rogoff. 2009. *This Time is Different: Eight Centuries of Financial Folly*. Chapter 12 ("Inflation and Modern Currency Crashes").

Graciela Kaminsky, Carmen Reinhart, Carlos Vegh. 2003. "The Unholy Trinity of Financial Contagion" *The Journal of Economic Perspectives*. 17 (4): 51-74.

Charles Kindleberger. 2000. *Manias, Panics, and Crashes*, pg. 179-206 ("The International Lender of Last Resort").

Charles Kindleberger. 1986. *The World in Depression 1929-1939*, pg. 288-305 ("An Explanation of the 1929 Depression").

Barry Eichengreen. 2010. "Hegemonic Stability Theories of the International Monetary System." in Frieden et al eds. *International Political Economy*.

#### **Week 5: Early Crises**

Charles Kindleberger. 2000. *Manias, Panics, and Crashes: A History of Financial Crises*, Chapter 6 ("The Critical Stage").

Charels Mackay. 1841. *Extraordinary Popular Delusions and the Madness of Crowds*. pg. 1-101 ("Money Mania – The Mississippi Scheme," "The South Sea Bubble," "The Tulipomania").

Guy Rowlands. 2009. "France 1709: Le Crunch." *History Today*: 42-47.

Peter Gourevitch. 1977. "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crisis of 1873-1896." *Journal of Interdisciplinary History* 8 (2): 281-313.

Robert Brunder and Sean Carr. 2007. *The Panic of 1907*. pp. 89-103, 121-133, 151-177.

#### **Week 6: The Great Depression**

John Kenneth Galbraith. 1997. *The Great Crash 1929*, pp. 66-127. pg. 168-94.

Charles Kindleberger. 1986. *The World in Depression 1929-1939*. pg. 117-196.

Ben Bernanke. 1995. "The Macroeconomics of the Great Depression: A Comparative Approach" *Journal of Money, Credit and Banking* 27 (1): 1-28.

Barry Eichengreen and Jeffrey Sachs. 1985. "Exchange Rates and Economic Recovery in the 1930s." *The Journal of Economic History* 45 (4): 925-946.

Dick K. Nanto and Shinji Takagi. 1985. "Korekiyo Takahashi and Japan's Recovery from the Great Depression." *American Economic Review* 75 (2): 369-374.

## **Week 7: Japan's Economic Stagnation**

William Grimes. 2001. "Chapter 5: Inflating and Bursting the Bubble, 1988-92" in *Unmaking the Japanese Miracle: Macroeconomic Politics, 1985-2000*. Cornell: Cornell University Press. pg. 136-161.

Ben Bernanke. 2000. "Japanese Monetary Policy: A Case of Self-Induced Paralysis?" in Adam S. Posen and Ryoichi Mikitani eds. *Japan's Financial Crisis and Its Parallels to U.S. Experience*. Washington: Institute for International Economics.

Paul Krugman. 1998. "Setting Sun." *Slate*, June 12.

Richard Katz, 2003. *Japanese Phoenix*, 25-39.

Jennifer Amyx. 2001. "Informality and Institutional Inertia: The Case of Japanese Financial Regulation" *Japanese Journal of Political Science*, pp. 47-66.

Richard Koo. 2009. *The Holy Grail of Macroeconomics: Lessons from Japan's Great Recession*, pp.1-37.

Phillip Y. Lipsey and Hirofumi Takinami. 2010. "A Comparative Study of Responses to Financial Crises in Japan and the United States."

## **Week 8: Role of the International Monetary Fund**

James Vreeland. 2006. *The International Monetary Fund: Politics of Conditional Lending*, 5-36 ("What is the IMF?"), 73-94 ("What are the Effects of IMF Programs?").

Strom Thacker. 1999. "The High Politics of IMF Lending." *World Politics* 52 (38-75): 38-75.

Phillip Y. Lipsey. 2003. "Japan's Asian Monetary Fund Proposal." *Stanford Journal of East Asian Affairs* 3 (Spring): 93-104.

Randall W. Stone. 2004. "The Political Economy of IMF Lending in Africa." *American Political Science Review* 98, no. 4 (November): 577-91.

Erica Gould. 2003. "Money Talks: Supplementary Financiers and International Monetary Fund Conditionality." *International Organization* 57 (3): 551-586.

J. Lawrence Broz. 2005. "Congressional Politics of International Financial Rescues," *American Journal of Political Science* 49 (July): 479-96.

## **Week 9: The Asian Financial Crisis**

Gregory Noble and John Ravenhill, "Causes and Consequences of the Asian Financial Crisis," in Gregory Noble and John Ravenhill eds., *The Asian Financial Crisis* (Cambridge: Cambridge University Press, 2000). pp. 1-35.

Paul Blustein. 2001. *The Chastening*. New York: PublicAffairs, pg. 51-149.

Martin Feldstein. 1998. "Refocusing the IMF." *Foreign Affairs* 77 (2): 20-33.

Stanley Fisher. 1998. "In Defense of the IMF: Specialized Tools for a Specialized Task." *Foreign Affairs* 77 (4): 103-106.

Andrew McIntire. 2001. "Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia." *International Organization* 55 (1): 81-122.

William Grimes. 2009. *Currency and Contest in East Asia*. Chapter 4 ("Currency Management and Contestation").

## **Week 10: The Crisis of 2008**

Andrew Ross Sorkin. 2009. *Too Big to Fail*, pg. 297-372.

Carmen Reinhart and Kenneth Rogoff. 2009. *This Time is Different: Eight Centuries of Financial Folly*. Chapter 13 ("The U.S. Subprime Crisis: An International and Historical Comparison"), Chapter 14 ("The Aftermath of Financial Crises").

Miguel Almunia, Agustín S. Bénétrix, Barry Eichengreen, Kevin H. O. Rourke and Gisela Rua. 2009. "From Great Depression to Great Credit Crisis: Similarities, Differences and Lessons."

Maurice Obstfeld and Kenneth Rogoff. 2010. "Global Imbalances and the Financial Crisis: Products of Common Causes."

Donald Kohn. 2010. "Homework Assignments for Monetary Policymakers."

Other Selected Articles on Recent Events.