

SYLLABUS

Readings:

The books for this course are

Niall Ferguson, *The Ascent of Money: A Financial History of the World*, Penguin, 2009.

Milton Friedman and Anna Jacobson Schwartz, *The Great Contraction, 1929–1933*, Princeton University Press, New Edition, 2008.

Timothy J. Kehoe and Edward C. Prescott, editors, *Great Depressions of the Twentieth Century*, Federal Reserve Bank of Minneapolis, 2007.

Charles P. Kindleberger, *The World in Depression, 1929–1939*, University of California Press, Revised and Enlarged Edition, 1986.

Charles P. Kindleberger and Robert Aliber, *Manias, Panics, and Crashes: A History of Financial Crises*, Wiley, Fifth Edition, 2005.

Web Site:

The course web site is <http://www.econ.umn.edu/~tkehoe/classes/4033-09.html>. I will post assignments and most of the material that I distribute in class there.

Office Hours:

Wednesday, 9:00 am – 11:00 am at 4-175 Herbert M. Hanson Jr. Hall, 612-625-1589. There is a sign-up sheet outside my door. If you need to meet at some other time, please do not call me at home; send me an e-mail message at tkehoe@umn.edu.

Assignments:

There will be three problem sets, an in-class midterm exam, and an essay. There will not be a final exam. The essay will be 15-18 pages, typed and one-and-a-half or double spaced. All assignments must be completed in order to receive a final grade for the course.

Essay:

You are asked to write a research essay on a specific economic depression, a comparison of two depressions, a financial crisis that did not result in a depression, some feature common to a group of depressions, or some other topic closely related to the course. The essay will include analysis

of data and of a simple economic model as well as analysis of historical evidence. Writing the essay will involve three major steps:

First, you need to come up with a topic and a preliminary list of sources. (If you would like to propose a topic that does not fit into the categories given above, please talk to me during office hours or set up an appointment.) The topic, described in a paragraph, and the list of sources should be typewritten on one sheet of paper and submitted on 15 October. This step of the paper writing process is important. You need to identify a topic for which you can find sufficient references. You also need to begin to think about a point that you want to make in the paper, what is often referred to as the paper's argument or theme.

Second, you need to submit a first draft of your essay by 1 December. This draft will be returned to you with a written evaluation, questions, and suggestions for improvements on 3 December. I will make 15 minute individual appointments with all of the students in the course on 4 December and 7 December.

Third and finally, you need to submit the final draft of your essay by noon on 23 December. You will be able to pick up your essay with a written evaluation at the department office one week after the end of the semester. 20 percent of the essay grade will be based on the topic and list of sources, 20 percent on the first draft, and 60 percent on the final draft.

Exam:

The exam will take place on 24 November. It will have of two parts. The first part will consist of one or two questions based on the problem sets. The second part will have one or two essay questions. If there is more than one question in a part, you will be asked to choose one question to answer. I will distribute a study sheet with possible questions for the exam on 5 November. This study sheet will let you know exactly what the exam will look like, but preparing well will require you to prepare answers that cover all of the important aspects of the course. (That is the point of an exam — preparing for it, not taking it.)

Grading:

Each problem set mark will be counted once, and the mark for the midterm exam and the essay will be counted three times, providing a total of nine marks. The lowest of these marks will be dropped and the remaining eight marks averaged. Notice that this means that, if the lowest grade is that of the midterm or essay, its weight will be reduced, but it will not be completely dropped. Please note that it is very easy to do extremely well on the problem sets if you keep up with the material and turn in the problem sets on time. If you do well on the problem sets, you will do well on the midterm exam. Thus, doing well on the problem sets is the key to doing well in the course. This is not a course where you can do well with a whirl of intense activity at the end of the semester.

S/N Policy:

To receive an S, you must complete all course assignments and achieve a grade of C or better.

Late Policy:

Any late assignment will be penalized 10 (out of 100) points for each class period it is late, up to a maximum of 40 points.

Cooperation on Assignments:

Students are permitted (and encouraged) to discuss the answers to problem sets together. Copying from another student's answers is not allowed.

Guidelines for Defining Scholastic Dishonesty:

The University Student Conduct Code defines scholastic dishonesty as follows:

Scholastic Dishonesty means plagiarizing; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; altering, forging, or misusing a University academic record; or fabricating or falsifying data, research procedures, or data analysis.

Scholastic dishonesty includes, but is not limited to, the description above. It could also be said that scholastic dishonesty is any act that violates the rights of another student with respect to academic work or that involves misrepresentation of a student's own work. Also included would be cheating on assignments or examinations, inventing or falsifying research or other findings with the intent to deceive, submitting the same or substantially similar papers (or creative work) for more than one course without consent of all instructors concerned, depriving another of necessary course materials, and sabotaging another's work. (*CLA Classroom, Grading & Examination Procedures*, <http://advisingtools.class.umn.edu/cgep/studentconduct.html>.)

Penalties for scholastic dishonesty of any kind in any course will entail an "F" for the particular assignment/exam or the course.

List of Topics and References:**1. What is a Great Depression?**

Y. Abrahamsen, R. Aeppli, E. Atukeren, M. Graff, C. Müller, and B. Schips, "The Swiss Disease: Facts and Artefacts: A Reply to Kehoe and Prescott," *Review of Economic Dynamics*, 8 (2005), 749–758.

T. J. Kehoe and E. C. Prescott, “Great Depressions of the Twentieth Century,” in *Great Depressions of the Twentieth Century*.

T. J. Kehoe and E. C. Prescott, “Using the General Equilibrium Growth Model to Study Great Depressions: A Reply to Temin,” Federal Reserve Bank of Minneapolis Research Department Staff Report 418, 2008.

T. J. Kehoe and K. J. Ruhl, “Is Switzerland in a Great Depression?” *Review of Economic Dynamics*, 8 (2005), 759–775.

P. Temin, “Real Business Cycle Views of the Great Depression and Recent Events: A Review of Timothy J. Kehoe and Edward C. Prescott’s *Great Depressions of the Twentieth Century*,” *Journal of Economic Literature*, 46 (2008), 669–684.

2. Growth Accounting and the General Equilibrium Growth Model

J. C. Conesa, T. J. Kehoe, and K. J. Ruhl, “Modeling Great Depressions: The Depression in Finland in the 1990s,” in *Great Depressions of the Twentieth Century*.

M. De Vroey and L. Pensieroso, “Real Business Cycle Theory and the Great Depression: The Abandonment of the Abstentionist Viewpoint,” *B. E. Journal of Macroeconomics (Contributions)*, 6 (2006).

T. J. Kehoe and E. C. Prescott, “Great Depressions of the Twentieth Century,” in *Great Depressions of the Twentieth Century*.

L. Pensieroso, “Real Business Cycle Models of the Great Depression: A Critical Survey,” *Journal of Economic Surveys*, 21 (2007), 110–142.

3. The Great Depression of the 1930s

Three teams will argue in favor of three different hypotheses:

- The Great Depression was the result of bad policy on the part of the U.S. Federal Reserve System in reaction to the 1929 U.S. stock market crash.
- The breakdown of the world financial system in the 1920s and its aftermath caused the Great Depression.
- U.S. government policy exacerbated the crisis during the period 1930–33.

Kindleberger and Aliber, Chapters 1–2.

Kindleberger, Chapters 1–8, 14.

Friedman and Schwartz.

4. Financial Crises and Central Banks

D. W. Diamond (2007), “Banks and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model,” *Federal Reserve Bank of Richmond Economic Quarterly*, 93, 189–200.

D. W. Diamond and Philip H. Dybvig (1983), “Bank Runs, Deposit Insurance, and Liquidity,” *Journal of Political Economy*, 91, 401–419.

G. Fernández de Córdoba and T. J. Kehoe (2009), “The Current Financial Crisis: What Should We Learn from the Great Depressions of the Twentieth Century?” *The Region*, 23, 7–39.

N. Wallace, “Another Attempt to Explain an Illiquid Banking System: The Diamond and Dybvig Model with Sequential Service Taken Seriously,” *Federal Reserve Bank of Minneapolis Quarterly Review*, 12, 3–16.

5. International Financial Crises and International Lenders of Last Resort

V. V. Chari and P. J. Kehoe (1998), “Asking the Right Questions About the IMF,” *Federal Reserve Bank of Minneapolis Annual Report Essay*.

H. L. Cole and T. J. Kehoe (1996), “A Self-Fulfilling Model of Mexico's 1994–95 Debt Crisis,” *Journal of International Economics*, 41, 309–30.

T. J. Kehoe (1998), “Can Debt Crises Be Prevented?” in R. Levich, editor, *Emerging Market Capital Flows*, Kluwer Academic Publishers, 1998, 3–22.

T. J. Kehoe (1996), Comment on “Are Currency Crises Self-Fulfilling?” by Paul Krugman, in B. S. Bernanke and J. J. Rotemberg, editors, *NBER Macroeconomics Annual 1996*, MIT Press, 378–92.

T. J. Kehoe (1995), “What Happened in Mexico in 1994–95?” in P. J. Kehoe and T. J. Kehoe, editors, *Modeling North American Economic Integration*, Kluwer Academic Publishers, 131–47.

Kindleberger, Chapter 14.

P. Krugman (1996), “Are Currency Crises Self-Fulfilling?” in B. S. Bernanke and J. J. Rotemberg, editors, *NBER Macroeconomics Annual 1996*, MIT Press, 346–78.