

Money and Power in the Western World, 1700-2010

B30.2391.XX, Summer I 2012

Tuesdays and Thursday, 6:00 p.m. - 9:00 p.m. – KMEC TBA

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Course Description and Objectives:

This course examines the interaction of financial markets and institutions (money), governments (power), economic growth, and financial crises in the Western World since about AD 1700. Lectures, readings, and student presentations will explore how government regulation of money and monetary systems; money, capital, and derivatives markets; and intermediaries including banks and insurers interacts with markets to foment financial crises that stymie growth and create demand for additional regulation.

The intellectual goals of the course are to impart a long-term perspective on business and economic policies and government involvement in the financial system and economy and to cultivate thinking in time and context. Students are urged to read for comprehension, not detail. They should stay focused on the big picture and not lose sight of the forest for the trees. The course readings and discussions should be probed for areas of intellectual interest and career relevance, not memorized.

The first nine class meetings will provide background information on the history of the key components of financial systems delivered primarily by lecture. The final three class meetings will be devoted to student presentations.

Required Text (in the bookstore):

Roberts, Alasdair. *America's First Great Depression: Economic Crisis and Political Disorder After the Panic of 1837* (Cornell: Cornell University Press, 2012).

Recommended Additional Readings (obtain on your own, at your discretion):

Hetzl, Robert. *The Great Recession: Market Failure or Policy Failure?* (New York: Cambridge University Press, 2012). Definitely a policy failure, Hetzel argues. The Fed should have slashed interest rates in early 2008, before the big boys began to fall.

Kindleberger, Charles. *Manias, Panics, and Crashes: A History of Financial Crises* 5e (New York: Wiley, 2005). A qualitative look at financial crises, their causes, and effects. Any edition of this classic will do.

Moss, David and John Cisternino, eds. *New Perspectives on Regulation* (Cambridge, Mass.: The Tobin Project, 2009). (Available free at <http://www.tobinproject.org/books-papers/new-perspectives-regulation>.) Most of this book argues that market failures are more pervasive and damaging than government failures.

Reinhart, Carmen and Kenneth Rogoff. *This Time Is Different: Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009). A quantitative look at financial crises, their causes, and effects.

Winston, Clifford. *Government Failure Versus Market Failure: Microeconomic Policy Research and Government Performance* (Washington, DC: AEI-Brookings, 2006). (Available free at http://www.brookings.edu/papers/2006/09monetarypolicy_winston.aspx.) This book argues that government failures are more pervasive and damaging than market failures.

Wright, Robert E., ed. *Bailouts: Public Money, Private Profit* (New York: Columbia University Press/SSRC, 2010). This book describes several major bailouts and explores my concept of hybrid failure. I also have a draft of a chapter on the history of bailouts that I can share.

_____. *Fubarnomics: A Lighthearted, Serious Look at America's Economic Ills* (Amherst, N.Y.: Prometheus, 2010). This book explores my concept of hybrid failure in more depth and overviews my initial thoughts on the Panic of 2008.

_____. *Money and Banking* 2e (Nyack, N.Y.: Flat World Knowledge, 2012). (Available free at: <http://catalog.flatworldknowledge.com/catalog/editions/2087>.) This book will primarily aid students who are not conversant with the basics of finance or who could use a brush up.

Assessment:

Grades will mostly be a function of each student's final presentation, but attendance and class participation are also required and will affect grades at the margin. A fifty-fifty curve (give or take) will be employed (50% As, 50% Bs -- or lower for slackers, if any should be so daft).

Student Group Presentations:

Students need to form their own groups, which may have from **one** to **four** members.

Presentations should be based on the required readings, class discussions, and additional readings or resources, as necessary, and should **demonstrate a clear understanding of key course concepts**.

Groups may examine **any financial panic or crisis after 1900 in any nation or region**. A by no means exhaustive list of possible topics includes the Panic of 1907, the stock market crash of 1929, the banking panics (in the U.S. and/or Europe) of the early 1930s, the S&L Crisis, the Asian currency crisis of the late 1990s, the corporate accounting scandals of the early 2000s, and, of course, the Panic of 2008.

Presentations should cover the:

- ✓ pre-crisis regulatory environment;
- ✓ pre-crisis market environment;
- ✓ crisis itself: timing, duration, socioeconomic and political effects;
- ✓ post-crisis regulatory responses.

Maximum presentation length will be determined once the number of groups is known but will likely be 30-45 minutes. That is not much time, so presenters should strive to be as clear and concise as possible. Out of fairness, the order will be randomly determined on the fly so that all groups have to be prepared to present at any time.

Students may obtain help from each other, the instructor, or others but should be careful to cite their sources on the final slide(s) of their slide deck. Plagiarism and other forms of cheating will not be tolerated.

If you need assistance with the presentation, or any other part of the course, feel free to contact the instructor via e-mail or to arrange a phone or face-to-face meeting.

Course Outline

Meeting 1 – Thursday, 17 May: Course Overview; Theories of Economic Growth and Regulation

Reading due: None. Hard copies of the course syllabus and slide deck will be distributed at the beginning of class.

Meeting 2 – Tuesday, 22 May: Money, Monetary Systems, and Central Banks

Reading due: Familiarize yourself with the syllabus and the basic organization of the slide deck. Read *America's First Great Depression* and any of the recommended readings at your own pace but try to finish the required text by 14 June and the suggested readings by 19 June.

Meeting 3 – Thursday, 24 May: Corporations and Their Governance

Meeting 4 – Tuesday, 29 May: Commercial Banking

Meeting 5 – Thursday, 31 May: Insurance and ARTM

PRESENTATION TOPICS DUE VIA EMAIL BEFORE CLASS

Meeting 6 – Tuesday, 5 June: Credit Markets (Money and Capital -- Bond and Mortgage)

Meeting 7 – Thursday, 7 June: Equities, Hybrids, and Derivatives Markets

Meeting 8 – Tuesday, 12 June: Investment Funds (Savings, Mutual, Hedge, Equity, Retirement)

Meeting 9 – Thursday, 14 June: Discuss *America's First Great Depression* and Other Early Crises and Panics, e.g., 1764, 1792, 1819, 1873, 1893-95

Reading due: Read any/all slides that we did not cover in class up to the "Financial Crises" section and come to class with questions about any points that are not clear.

Meeting 10 – Tuesday, 19 June: Student Presentations

ALL GROUPS MUST BE PREPARED TO PRESENT

Meeting 11 – Thursday, 21 June: Student Presentations

Meeting 12 – Tuesday, 26 June: Student Presentations

Instructor's Biographical Information

Robert E. Wright taught Global Perspectives on Enterprise Systems and several electives for the economics department at Stern from 2003 until 2009 before moving to South Dakota to serve as the Nef Family Chair of Political Economy and Director of the Thomas Willing Institute for the Study of Financial Markets, Institutions, and Regulations at Augustana College. He holds a Ph.D. in history (SUNY Buffalo, 1997) and is affiliated with the Museum of American Finance. His most significant publications include:

Banking and Politics in New York, 1784-1829 (Ann Arbor, Mich: University Microfilms, 1997).

Origins of Commercial Banking in America, 1750-1800 (Lanham, Md.: Rowman and Littlefield, 2001).

Hamilton Unbound: Finance and the Creation of the American Republic (Westport, Conn.: Greenwood, 2002).

The Wealth of Nations Rediscovered: Integration and Expansion in American Financial Markets, 1780-1850 (New York: Cambridge University Press, 2002).

- The History of Corporate Finance: Development of Anglo-American Securities Markets, Financial Practices, Theories and Laws* 6 vols. (London: Pickering and Chatto, 2003). With Richard Sylla.
- A History of Corporate Governance: The Importance of Stakeholder Activism* 6 vols. (London: Pickering and Chatto, 2004). With Wray Barber, Matthew Crafton, and Anand Jain.
- Mutually Beneficial: The Guardian and Life Insurance in America* (New York: New York University Press, 2004). With George D. Smith.
- The First Wall Street: Chestnut Street, Philadelphia, and the Birth of American Finance* (Chicago: University of Chicago Press, 2005).
- The U.S. National Debt, 1785-1900* 4 vols. (London: Pickering and Chatto, 2005).
- Financial Founding Fathers: The Men Who Made America Rich* (Chicago: University of Chicago Press, 2006). With David Jack Cowen.
- Broken Buildings, Busted Budgets: How to Fix America's Trillion-Dollar Construction Industry* (Chicago: University of Chicago Press, 2007). With Barry LePatner and Timothy Jacobson.
- Knowledge for Generations: Wiley and the Global Publishing Industry, 1807-2007* (Hoboken: John Wiley & Sons, 2007). With Timothy Jacobson, George D. Smith, and others.
- One Nation Under Debt: Hamilton, Jefferson, and the History of What We Owe* (New York: McGraw-Hill, 2008).
- Bailouts: Public Money, Private Profit* (New York: Columbia University Press/SSRC, 2010).
- Higher Education and the Common Weal: Protecting Economic Growth and Political Stability with Professional Partnerships* (Hyderabad, India: ICFAI, 2010).
- Fubarnomics: A Lighthearted, Serious Look at America's Economic Ills* (Amherst, N.Y.: Prometheus, 2010).
- The Wall Street Journal Guide to the 50 Economic Indicators That Really Matter: From Big Macs to "Zombie Banks," the Indicators Smart Investors Watch to Beat the Market* (New York: HarperCollins, 2011). With Simon Constable.
- Money and Banking* 2e (Nyack, N.Y.: Flat World Knowledge, 2012).

Corporation Nation: Rise and Demise of the American Economic Juggernaut (University of Pennsylvania Press, 2012 or 2013).

Control of the Purse: Money, Politics, and the Imperial Crisis in New York [tentative title] (New Haven: Yale University Press, forthcoming). With Ron Michener.