Instructor: Barry W. Ickes, 618 Kern Building, email: bwickes@psu.edu.

Time and Location: T, Th 1:00-2:15, 008 Mueller.

Office Hours: Tuesday 11:00 – 12:00
Wednesday 10:00 – 11:00.

Textbook: I have ordered the following books:

Course Website: The course website has an updated (continuously) syllabus, readings, lecture notes, and other stuff. The url is http://econ.la.psu.edu/~bickes/497finhome.htm.

Grading: There will be periodic assignments, two midterm exams and a final. They will count toward the grade as follows.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>15%</th>
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<tbody>
<tr>
<td>Midterms</td>
<td>45%</td>
</tr>
<tr>
<td>Final</td>
<td>35%</td>
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Midterm One: February 11
Midterm Two: April 1
See Final Exam Schedule

Honors Option. Students who are taking this course for an honors option will have additional assignments. There will be two written assignments. One will be a short paper reviewing two books on the financial crisis, from a list I will provide.

Description of the Course

This course will focus on the causes and consequences of financial crises, with special emphasis on the Crisis of 2008 and the Euro Crisis of 2011-. To understand our current dilemma, we will study famous crashes from the South Sea Bubble to Long-Term Capital Management. We will also study international financial crises, such as the Asian Crisis of 1997-8 and the Argentine Crisis of 2001. Our goal is to understand why financial crises occur, how costly they are to the economies in question, and what policies can be undertaken to make them occur less frequently. Are financial crises inevitable? A price we pay for having a market economy? In order to understand the nature and causes of crises we need to develop a framework of financial theory. The course will thus have a self-contained review of asset pricing theory. We will also examine the question of market efficiency and the theory of speculative bubbles.
The focus of the course is on what economics can say about financial crises, whether they are inevitable, and what policies, if any, can be utilized to mitigate their consequences. We use economic theory and models to study the causes of financial crises and also discuss the effectiveness of policy responses to these episodes.

Readings (this is less than even very partial, will be updated)
(Asterisk denotes "required" reading):

Introduction
*Aliber and Kindleberger, chapter 1.

Some Basic Finance and Asset Pricing

Arbitrage and Market Efficiency
(http://www.jstor.org/stable/1942981)
(http://www.jstor.org/stable/1942779)

Bubbles
*Aliber and Kindleberger, chapter 3,4,5.
(http://econ.la.psu.edu/~bickes/garber.pdf).

**Theories of Financial Crises**

Gorton, chapter 3.
*Aliber and Kindleberger, chapter 2

**Overviews of Financial Crisis**


**Securitization and Shadow Banking**


**Housing Bubble and Subprime**

Panic of 2008


Aftermaths of Financial Crises


Euro Crisis


Course Issues and Philosophy

It is useful to make clear at the start some issues of teaching philosophy. As you will learn, I find this material very interesting. My goal is to make you find it interesting. I enjoy the
material and am very enthusiastic about it. I will try hard to convey why this is interesting and important. There are costs to this approach, however. This is not material that has been taught so many times that it practically runs by itself. There is no autopilot in this course. This means that you will have to work. You won’t do well if you are not prepared to work hard and think. In the past my attitude has always been the following: “I am not a monitor. I will not enforce you to supply effort.” I had always thought students have enough incentive to do homework problems on their own. Student evaluations (and test performance) seem to indicate otherwise. So this year we will have (at least four) homework assignments. These assignments will count for up to 15% of your final grade.

Economics is a quantitative subject. It is about stuff that we count. So we will use lots of numbers. It is also an analytic subject: economists have a hard time understanding arguments that do not involve models. Models make the subject matter easier, not harder, but they enforce discipline on thought. So we will make use of some elementary algebra. This is not really above high school levels, but sometimes the sight of mathematical symbols causes psychological paranoia. So be warned. You can see examples of what we do in some of the lecture notes online.

This course is clearly not just theory (but there is a lot of that) and the connection with real world events will be evident. This means that the material is dynamic. Events will upset the order of the topics. A lot of material on current events will get added to the website. And, as new developments occur I will restructure the plan (I will update this syllabus on the web whenever necessary, keep checking). The syllabus is only a rough guide to what we will do each week. If you desire lots of structure you are in the wrong course. I cannot emphasize this enough.

I have posted on the website old exams and problem sets. These are useful indications of what exams will be like, and useful study tools. Answers are posted there as well, at least for some exams. I will produce review questions in addition to the problem sets from which you may practice and learn. You should use this free resource.1

Attendance in this course accounts for 5%. This is a somewhat small (though not insignificant) direct contribution to your grade. The indirect contribution, however, is much larger. One reason is that the lectures do not repeat what is in the book. They are complements, not substitutes (what point would there be to the lectures, otherwise). Past experience suggests that students who do not attend class typically fail exams and drop out.2 Perhaps you can be the exception. In any event, there will be a seating chart, and I will record attendance.

While attendance is a choice that is left to you, tardiness is not. Showing up late to class not only demonstrates a lack of respect to the instructor, it is also shows a lack of respect to other students. It is disruptive to lectures. It is a negative externality that is dumped on

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1 People often ask whether the final will be cumulative. This is a question that one should never ask. Why? The essential meaning of this question is “can I forget everything you taught before the last exam?” It is bound to be insulting to any instructor to hear such a question. Everything we do in the early part of the course builds a foundation for the latter part of the course. How can the discipline be anything but cumulative?

2 This does not really explain why I give points for attendance. After all, aren’t the costs of absenteeism internalized (i.e., via a low grade)? The problem is not that students who fail to attend lectures do poorly on exams (they do, but that is their problem, not mine). It is that students who fail to attend lectures and then do poorly on exams then pose an extra burden (on me) later in the course (pleading for extra credit, trying to learn in 3 weeks what they should have learned over 12 weeks, etc.). This makes paternalism a potentially optimal social policy.
your fellow students. It is not fair to other students to show up late. Better not to show up at all than to show up late (unless you have a good excuse). Of course, it is best to show up on time. You are all too civilized to dump your garbage on your neighbor's lawn or car. Extend this courtesy to fellow students.

Miscellany

Disability Access Statement  The Pennsylvania State University encourages qualified people with disabilities to participate in its programs and activities and is committed to the policy that all people shall have equal access to programs, facilities, and admissions without regard to personal characteristics not related to ability, performance, or qualifications as determined by University policy or by state or federal authorities. If you anticipate needing any type of accommodation in this course or have questions about physical access let me know as soon as possible.

Academic Integrity  Penn State defines academic integrity as the pursuit of scholarly activity in an open, honest and responsible manner. All students should act with personal integrity, respect for other students’ dignity, rights and property, and help create and maintain an environment in which all can succeed through the fruits of their efforts (Faculty Senate Policy 49-20).

Dishonesty of any kind will not be tolerated in this course. Dishonesty includes, but is not limited to, cheating, plagiarizing, fabricating information or citations, facilitating acts of academic dishonesty by others, having unauthorized possession of examinations, submitting work of another person or work previously used without informing the instructor, or tampering with the academic work of other students. Students who are found to be dishonest will receive academic sanctions and will be reported to the University’s Judicial Affairs.

Department Statement on Valid Excuses

During the course many possible situations may arise that would result in your inability to attend class, attend exams, or perform at a minimally acceptable level during an examination. Illness or injury, family emergencies, certain University-approved curricular and extra-curricular activities, and religious holidays can be legitimate reasons to miss class or to be excused from a scheduled examination.

In the case of your own illness or injury, confirmation from a physician, physician’s assistant, a nurse-practitioner, or a nurse is required. Be advised that University Health Services cannot provide such verification unless they have provided treatment and the student authorizes release of information to the instructor. Further, barring extraordinary circumstances, the confirmation must be available to the instructor prior to the missed course event.

With regard to family emergencies, you must provide verifiable documentation of the emergency. Given the vast array of family emergencies the instructor will provide precise guidance as to what constitutes adequate documentation. Unless the emergency is critical you should notify the instructor in advance of your absence from the scheduled course event.
In cases of critical emergencies, you must notify the instructor within one week of your absence.

For University-approved curricular and extra-curricular activities, verifiable documentation is also required. The student should obtain from the unit or department sponsoring the activity a letter (or class absence form) indicating the anticipated absence(s). The letter must be presented to the instructor at least one week prior to the first absence.

In the case of religious holidays, the student should notify the instructor by the third week of the course of any potential conflicts.

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**Finally**  Please see me if you have concerns or comments about the course. If you would like to provide feedback about this course you may also contact the Director of Undergraduate Studies in Economics or leave a comment in the box that the Department maintains in 303 Kern.