

# **BUBBLES, PANICS AND CRASHES: AN INTRODUCTION TO ALTERNATIVE THEORIES OF ECONOMIC CRISIS**

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## **Course Overview:**

This course explores the reasons behind the several large bubbles and crashes since the Great Depression, policy responses from governments and central banks, and the relevance and possible outcomes of these policies. Special attention will be paid to the works of Hyman Minsky-Post-Keynesian school and Austrian school, and Circuitist schools as well as orthodox explanations and policy suggestions. A comparison of the current crisis with the Great Depression will also accompany the analysis.

## **Aims**

- To introduce students to the recurrent nature of financial crises
- To introduce students to the nature and causes of speculative booms
- To introduce students to the works of Hyman Minsky and Post-Keynesian endogenous money literature, as well as Circuitist explanations of crisis
- To present the Austrian Business Cycle Theory
- To introduce students to the securitization and its role in the credit crunch
- To introduce students to policy and regulation oriented responses to the credit crunch, and possible alternatives
- To introduce students to the possible future outcomes as a result of these policy responses

## **Pre-requisites:**

Intermediate level Macroeconomics

## **LECTURES**

### **Week One (7 October 2013)**

- The Wall Street Crash and the Great Depression – fundamental issues
- Policy Responses: Recovery from the Great Depression

### **Week Two (14 October 2013)**

- The 1997 Asian Crisis: Fundamentals vs. Financial Panic Explanations
- Speculative attacks, emerging market crises and the IMF: Fixing the problem or Causing It?

### **Week Three (28 October 2013)**

- Major Technological Bubbles and Easy Lending Bubbles: The Dot. Com Bubble
- Credit crunch 2008 style: Background of the Crisis

### **Week Four (11 November 2013)**

- Securitization, credit markets and the Great Recession
- This time it is different? Japanese and Nordic Crisis in 1990s

### **Week Five (25 November 2013)**

- Minsky's Financial Instability Theory and the Credit Crunch

### **Week Six (TBC)**

- Post-Keynesian Endogenous Money and Central Bank Policy

### **Week Seven (TBC)**

- Marxist Theories of Crisis and the Circuitist School: Falling Profit Rates and Under-consumptionism

### **Week Nine: (TBC)**

- Austrian Business Cycle Theory, The Great Depression and The Credit Crunch

### **Week Nine (TBC)**

Optimal Currency Areas and the Euro Area Crisis: Are there any easy solutions?

### **Week Ten (TBC)**

- Quantitative Easing, Non-conventional Policy Responses to the Credit Crunch and Exit Policy: Are the Central Banks Trapped?

## **READING LIST**

### **Great Depression**

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### **Asian & Emerging Markets Crisis & Dot.com Bubble**

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**Crotty, J. and Lee, Kang-Kook (2002)**, 'Is Financial Liberalization Good for Developing Nations? The Case of South Korea in 1990s', *Review of Radical Political Economics*, vol.34, pp. 237-254

**Diaz-Alejandro, C. (1985)** "Good-bye financial repression, hello financial crash", *Journal of Development Economics*, vol. 19, Issues 1-2, 1-24

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**Mayer, M. (1998)**, "The Asian Disease: Plausible Diagnoses, Possible Remedies", Levy Economics Institute at Bard College, Working Papers, No:232

**Neftci, S. (2002)**, "FX Short positions, balance sheets and financial turbulence. An interpretation of the Asian financial crisis", in Eatwell, J. and Taylor, L. (eds), *International Capital Markets: Systems in Transition*, Oxford, Oxford University Press.

**Perez, C. (2008)** "The double bubble at the turn of the century: Technological roots and structural implications", *Cambridge Journal of Economics*, vol. 33, 779–805

**Radelet, S. & J. Sachs, (1998)** 'The East Asian financial crisis', *Brookings Papers on Economic Activity*, No. I.

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**Wade, R. (1998)** "The East Asian Debt-and-Development Crisis of 1997-8: Causes and Consequences", *World Development*. Vol.26, No:8

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### **Credit Crunch, Post-Keynesian, Circuitist and Austrian Crisis Theories**

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**Bagus, Phillip (2008)** "Monetary policy as bad medicine: The Volatile Relationship Between Business Cycles and Asset Prices", *Review of Austrian Economics*, Vol. 21, pp.283-300

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#### **Useful Economics & Finance Blogs to Follow:**

<http://www.debtdeflation.com/blogs/>

<http://rdwolff.com/>

<http://neweconomicperspectives.org/>

<http://multiplier-effect.org/>

<http://www.voxeu.org/>

<http://moslereconomics.com/>

<http://monthlyreview.org/>

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<http://michael-hudson.com/>

<http://www.nakedcapitalism.com/>

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<http://www.econbrowser.com/>  
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<http://rwer.wordpress.com/>  
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