

“History of Financial Crises”

[Formerly taught as: “Financial History of the US”]

FINC-UB 14

Peter Koudijs

(subject to change)

Financial crises are as old as financial markets themselves. There are many similarities between historical events. More often than not, financial crises are the result of bubbles in certain asset classes or can be linked to a specific form of financial innovation. When bubbles burst, banks and the financial sector amplify the shock to the wider economy. This course gives an overview of the history of financial crises. We go back almost 400 years and start with the Tulip mania of 1636. From there we will slowly make our way back to today, encountering many crisis episodes that are relevant from today’s point of view.

The course is organized around two recurring themes:

1. Asset prices bubbles.
2. Credit, banks and the amplification of shocks.

The purpose of this course is to understand the causes of past crises and to develop a conceptual framework that ties common elements together. We will discuss the lessons that we can draw for financial markets today.

Contact information

Instructor: Peter Koudijs

Professor in Finance

Email: pk3079@stern.nyu.edu

Webpage: <https://www.stern.nyu.edu/faculty/bio/peter-koudijs>

Office hours: by appointment

Faculty assistant: Michael Pierre-Jules

Email: mj37@stern.nyu.edu

Teaching goals

The goal of this course is to understand the broader, underlying mechanisms at play in financial crises. In addition, students are expected to approach the crisis episodes in a critical way. There will NOT be an exam for this course. Grades depend on classroom participation and one group project.

Teaching format

The class will be taught through the discussion of specific crises. Students are expected to carefully prepare the (significant) readings for each case. The Canvas website has a set of **study questions** that are meant to guide students through the readings of each class. The crisis episode will be introduced by the instructor, but students themselves are responsible for the discussion. Because of this format, it is essential that students do the readings. Classroom participation will count toward 40% of the final grade.

Group project

Students form groups (depending on final enrollment 3-5 persons per group) and pick a financial crisis not covered in class. Students will present their findings in one of the last sessions (see Schedule).

In their discussion of the crisis in question students have to cover the following points:

1. Provide a short summary of the episode
2. Provide an analysis of the crisis – what happened and why?
3. What elements of this crisis are relevant for understanding financial crises more generally?
4. How does this crisis relate to the broad overview we have discussed? I.e. what are new insights and what are parallels with other crises?
5. Optional: discuss the policy prescriptions that can be drawn from this event.

On Canvas there is a list of suggested crisis episodes. Please email the instructor directly for some suggested literature. The final choice will have to be communicated to the instructor by February 6. When communicating their choice, students should indicate whether there are any days that they are **not** able to present (see Attendance rules).

Each group has to pick a different crisis episode. If there is competition for a specific crisis, allocation will be on first come, first serve basis. But rest assured: there are plenty crises to choose from. Except for Global Financial Crisis of 2008-2010 and the SVB crisis in 2023, the episodes the instructor will cover in class all took place before World War II. This means that students will have their pick of post-WWII crises, which tend to be more accessible in terms of finding literature, collecting data etc. Nevertheless, there are many more historical crises that merit a closer look as well. Students will be given the

opportunity to review the quality of work provided by their teammates. Grades will be adjusted accordingly. The class presentation will count towards 60% of the final grade.

Attendance rules

Attendance is compulsory. Unexcused absences ([as defined by Stern](#)) imply a zero score for class participation of the relevant sessions. Because classes are built around group discussion, students need to be on time and it is not allowed to leave early, except if the instructor gives his permission beforehand. Tardiness counts as an unexcused absence. Students adding this course after the first day of class are asked to write short reports about the sessions they have missed.

Logistics

Classes will run for 1 hour and 15 minutes.

Laptops

This class has a strict no-laptop policy.

Readings

The syllabus has links to readings that are digitally available through the NYU library. Further, certain readings are available through Brightspace. Finally, to get a better grasp on money and banking, we'll read a number of chapters from

Peter L. Bernstein, *A Primer on Money, Banking and Gold* (2008).

Due to copyright limitations, we cannot make this digitally available, and we therefore ask you to purchase it.

Schedule

Session 1

January 21 (Tue)

Prelims 1

January 23 (Thu)

Prelims 2

January 28 (Tue)

Session 2

January 30 (Thu)

Read:

Session 3

February 4 (Tue)

Read:

Session 4

February 6 (Thu)

Read:

Session 5

February 11 (Tue)

Read:

Introduction

Financial markets [Lecture]

Balance sheets and commercial banks [Lecture]

Tulipmania

Maurits van der Veen, 'The Dutch Tulip Mania: The Social Politics of a Financial Bubble', mimeo 2009 [Brightspace]

South Sea Bubble

Hans-Joachim Voth and Peter Temin, *Prometheus Shackled: Goldsmith Banks and England's Financial Revolution after 1700* (2012); [chapter 5](#) (South Sea Bubble). Stop at "Aftermath"

Plantation Mortgage-Backed Securities

Abe de Jong, Tim Kooijmans and Peter Koudijs, 'Going for Broke: Bank Reputation and the Performance of Opaque Securities', *Journal of Finance* (forthcoming) [Brightspace]

The Roaring Twenties and The Wall Street Crash

Quinn, William, and John D. Turner. *Boom and bust: A global history of financial bubbles*. Cambridge

University Press (2020); [chapter 7](#) (The Roaring Twenties and Wall Street Crash).

Session 6

February 13 (Thu)

Review sessions 2-6

NO CLASS

February 18 (Tue)

Session 7

February 20 (Thu)

Read:

Peter L. Bernstein, *A Primer on Money, Banking and Gold* (2008), Chapters 4, 5 and 6 (p. 29-68)
[PURCHASE BOOK]

Watch:

Mary Poppins on Banking
<https://www.youtube.com/watch?v=Hk23s4hh8M8>
and
<https://www.youtube.com/watch?v=xE5klzoyUTo>

Session 8

February 25 (Tue)

Read:

Isabel Schnabel and Hyun Song Shin, 'Liquidity and contagion: the crisis of 1763', in: *Journal of the European Economic Association* 2004, 2(6): p. 929-968. Skip section 3. [Link](#).

Session 9

February 27 (Thu)

Read:

Alasdair Roberts, *America's First Great Depression: Economic Crisis and Political Disorder after the Panic of 1837* (2012), [Chapter 1](#), p. 13-47

Session 10

March 4 (Tue)

Bubbles: taking stock

Money and Banking: a primer

1763: European Banking Crisis

The U.S. Panic of 1837

The U.S. Panic of 1873

Read: Koudijs, Peter, Laura Salisbury, and Gurpal Sran. "For richer, for poorer: bankers' liability and bank risk in New England, 1867 to 1880." *The Journal of Finance* 76, no. 3 (2021): 1541-1599. [Link](#)

Session 11
March 6 (Thu)

The Crisis of 1907

Read: Ellis W. Tallman and Jon R. Moen, 'Lessons from the Panic of 1907', *Economic Review* (1990) [Link](#)

Session 12
March 11 (Tue)

Great Depression 1: The FED and the 1931 US Banking Crisis

Read: David Moss and Cole Bolton, 'The Federal Reserve and the Banking Crisis of 1931', HBS case 9-709-040, Jan 20, 2009

Session 13
March 13 (Thu)

Great Depression 2: Liability, Risk and Bank Failure

Read: Felipe Aldunate, Haelim Anderson, Daniel Barth, Dong Beom Choi, Dirk Jenter, Arthur Korteweg and Peter Koudijs, 'Liability, Risk and Bank Failure,' mimeo (2024) [Brightspace]

Session 14
March 18 (Tue)

Great Depression 3: FDR and Ferdinand Pecora

Listen: FDR's First Fireside chat
<http://www.americanrhetoric.com/speeches/fdrfirstfiresidechat.html> (includes transcript)

Read: Michael Perino, 'What FDR Hated About Glass-Steagall'. Bloomberg Opinion [Brightspace]
and

Gilbert King (Smithsonian.com) on the Pecora Hearings. [Link](#)

Session 15

March 20 (Thu)

Review sessions 7-14

NO CLASS

March 25 (Tue)

NO CLASS

March 27 (Thu)

Banking: taking stock

Session 16

April 1 (Tue)

Read:

Great Depression 4: Rise of Fascism

Doerr, Sebastian, Stefan Gissler, José-Luis Peydró, and Hans-Joachim Voth. "Financial crises and political radicalization: How failing banks paved Hitler's path to power." *The Journal of Finance* 77, no. 6 (2022): 3339-3372. [Link](#).

Session 17

April 3 (Thu)

Read:

Taking stock: parallels and lessons so far

Slides and class notes so far.

Session 18

April 8 (Tue)

Read:

Global Financial Crisis 1: The Housing Market

Atif Mian and Amir Sufi, *House of Debt: How They (and You) Caused the Great Recession and How We Can Prevent It from Happening Again*, University of Chicago Press (2014), [Chapters 6 and 7](#), p. 75-105.

Excerpt from Michael Lewis, *The big short in Vanity Fair*, 'Betting on the blind side', April 2010 (up to the capital H on p. 4). [Brightspace]

Watch:

Excerpts from the film *The Big Short*:

“I want my money back!”

<https://www.youtube.com/watch?v=pLLgNi5UmB0&t=10s>

“The CDOs still haven’t moved!”

<https://www.youtube.com/watch?v=F3goSYkVPNE>

“We have no clue how to sell them!”

<https://www.youtube.com/watch?v=ktGarjZC8E8>

Session 19

April 10 (Thu)

Global Financial Crisis 2: The Banking System

Read:

Becht, Marco, Patrick Bolton, and Ailsa Röell. "Why bank governance is different." *Oxford review of economic policy* 27, no. 3 (2011): 437-463. [Link](#).

Session 20

April 15 (Tue)

Global Financial Crisis 3: The European Debt Crisis

Read:

De Grauwe, Paul, and Yuemei Ji. "Self-fulfilling crises in the Eurozone: An empirical test." *Journal of International Money and Finance* 34 (2013): 15-36. [Link](#).

Session 21

April 17 (Thu)

Silicon Valley Bank

Read:

Acharya, Viral V., Matthew P. Richardson, Kermit L. Schoenholtz, Bruce Tuckman, Richard Berner, Stephen G. Cecchetti, Sehwa Kim et al. "SVB and beyond: The banking stress of 2023." (2023); [chapter 1](#) (Overview of Recent Banking Stress).

Session 22

April 22 (Tue)

Student Presentations

Session 23
April 22 (Tue)

Student Presentations

Session 24
April 24 (Thu)

Student Presentations

Session 25
April 29 (Tue)

Student Presentations

Session 26
May 1 (Thu)

Wrap up

To do:

Prepare one key question you would like to discuss in class