

FINANCIAL CRISES AND RECESSIONS OF THE 21st CENTURY

SPRING 2023

This course will explore the dramatic financial and macroeconomic developments that the United States has experienced over the last two decades. We will look at research on what factors precipitated the boom and bust in the housing market in the early 2000s and how the resulting mortgage crisis rippled through the global financial system and ultimately generated the most severe economic downturn since the Great Depression. We will analyze the policies put in place to stabilize the financial system, limit the economic fallout, and reduce the likelihood of future financial crises.

The course will then turn to the macroeconomic developments that have occurred in the two years since the onset of the COVID-19 pandemic—including near-financial crisis of March 2020, the massive displacement of workers in the early part of the pandemic, and the largely unexpected burst of inflation in 2021 and 2022. We will consider how the policy response to these events built on learnings from the Great Recession, how and why it differed, and what lessons to take for the future.

Instructor:	Professor Karen Dynan kdynan@fas.harvard.edu https://www.hks.harvard.edu/faculty/karen-dynan https://scholar.harvard.edu/kdynan
Dynan office hours:	Wednesday 3:15pm to 4:30pm in Littauer 319. To see the available appointments and sign up, click here .
Teaching fellows:	Liu Zhang (head TF) liuzhang@g.harvard.edu Salvador Ascencio Pastora sascenciopastora@g.harvard.edu Sophia Mo yiningmo@fas.harvard.edu Raphael Raux raphael_raux@g.harvard.edu
Faculty assistant:	Samantha Frick, Harvard Kennedy School sfrick@hks.harvard.edu
Course schedule:	Monday and Wednesday 1:30-2:45pm Location: Boylston 110 (Fong Auditorium) Liu Zhang: Wednesdays, 3-4pm, Harvard Hall 102 Salvador Ascencio Pastora: Thursdays, 10:30-11:30am, Littauer M-17
Review sessions:	Sophia Mo (1): Wednesdays, 3:45-4:45pm, Boylston 105 Sophia Mo (2): Wednesdays, 5-6pm, Boylston 105 Raphael Raux (1): Tuesdays, 1:30-2:30pm, Memorial Hall 303 Raphael Raux (2): Tuesdays, 3-4pm, Memorial Hall 303 Liu Zhang: Wednesdays 4-5pm, Harvard Hall 102

Salvador Ascencio Pastora: Fridays 12:00 pm - 1:00 pm, Sever 101

TF Office Hours:

Sophia Mo: Wednesdays 3-3:45pm (after the lecture), Boyston 105

Friday 4-5pm, Sever 109

Raphael Raux: Email raphael_raux@g.harvard.edu to schedule a time and location (in-person and via zoom).

Course website:

<https://canvas.harvard.edu/courses/114859>

Downloadable course syllabus: [EC 1746 Syllabus 1-14-23.pdf](#).

PREREQUISITES. Intermediate macroeconomics (Ec 1011B or Ec 1010B) or by permission of the instructor. Students should have some familiarity with businesses cycles and the models that economists use to think about them (such as the **IS-LM** model). Students should also be comfortable reading non-technical research papers by economists.

LEARNING OBJECTIVES. The aim of this course is for you to understand and be able to engage in informed discussions about:

- The social and economic forces and policy changes that laid the groundwork for the global financial crisis of 2007-2008.
- The developments in mortgage markets that precipitated the financial crisis—the home price bubble, the factors that drove the increases in mortgage debt, and the debate over why people default on mortgages.
- How the mortgage crisis turned into a full blown global financial crisis, including the roles of leverage, financial engineering, the shadow banking system, and financial regulation.
- How policymakers ultimately arrested the financial crisis and what factors complicated their decisions.
- The recessions that follow financial crises—what causes them, their human and macroeconomic costs, and why the ensuing recoveries tend to be long.
- The European debt crisis.
- How financial regulation was changed to reduce the likelihood of another crisis and the debate over whether these changes have been effective.
- The evolution of macroeconomic thinking over the first two decades of the 21st century and how it has shaped policy decisions.
- The policy response to the March 2020 —for cash— and other measures deployed to prevent another damaging financial crisis during the pandemic.
- The economic fallout from the COVID pandemic and the fiscal policies used to mitigate the human and macroeconomic costs.
- The largely unexpected burst of inflation that occurred in 2021 and 2022 as well as the difficult decisions it implies for policymakers.

LECTURES. There will be two lectures each week. We will record lectures for those who are isolating because of virus concerns but I strongly encourage that you otherwise attend in person.

SECTIONS. Recommended. Time and place indicated above (same as review sessions).

READINGS. There will be a Canvas page for each lecture. You should consult these pages well in advance of each class as they will describe the required preparation. Depending on the session, preparation may involve readings, going through slides, watching videos, listening to podcasts, or other tasks. In addition to the required readings, I will list key academic pieces that I draw from for the class lectures. These pieces will be useful for students who want to do a deeper dive on the topics. Some of the required

reading will be on news websites that have paywalls, but Harvard students should be able to access them all by following the instructions [here](#).

ASSIGNMENTS. There will be five short (1-3 page) writing assignments for which students will be asked, for example, to describe a policy that would address a specific challenge or summarize and critique an empirical paper. You may confer with others as you prepare assignments, but your thoughts must be written up independently. You must complete all assignments to pass the course.

Provisional assignment due dates [will be finalized the first week of class]:

- Assignment 1: Monday February 13
- Assignment 2: Monday February 27
- Assignment 3: Monday March 27
- Assignment 4: Wednesday April 12
- Assignment 5: Monday April 24

PARTICIPATION. Participation and engagement can take many forms. You can ask questions during class, you can chat with me before or after class, you can come to office hours, and you can post or react to articles on the [EC 1746 Canvas Discussion Board](#).

EXAMS. The class will have a midterm exam and a final exam.

- The midterm exam will be held on Monday March 6 in class.
- The final exam will be a three-hour in-person exam on Saturday May 13 at 2pm.

Students requiring accessibility accommodation should submit the appropriate documentation via email to liuzhang@g.harvard.edu, by February 27. Always include "EC 1746" in the subject of your email.

No makeup exams will be given. Students requiring alternative accommodation due to an emergency should email liuzhang@g.harvard.edu. Always include "EC 1746" in the subject of your email. If you have to miss the midterm for any reason, the weight normally assigned to the midterm exam grade will be applied to the final exam grade in calculating your grade for the semester.

GRADES. Course grades will be determined from a weighted sum of the assignments (30%), the midterm (30%), and the final exam (40%). I encourage participation and will adjust grades upwards for those who contribute to constructive discussions.

COMMUNICATION. You should regularly check the Canvas class pages for information about required preparation for each class (and for slides, recordings, and other follow-ups after each class). We will also be sending out announcements via email with news about the class.

I will aim to arrive a few minutes early for informal discussion. I will also regularly stay after class for questions about the material, current events, or other topics you would like to discuss.

I will hold regular office hours every week starting at the end of January. I have blocked out time on Wednesday and Thursday afternoons (ET). You can see the available appointments and schedule a time at [this website](#). I am planning to hold my office hours in person, but if that does not work for you, email my assistant [Samantha Frick](#) to change the appointment to Zoom.

Feel free to contact me by email with concerns and questions. When you do so, please include "EC 1746" as part of your subject line. I will make every effort to get back to you in a timely fashion, but if you do not hear back within 48 hours, please write again to make sure that I did not lose track of your email.

CODE OF CONDUCT. Please be on time for the lectures. All course activities—including class meetings, homework assignments, and exams—are subject to the Academic Integrity portion of the [Harvard](#)

[College Handbook for Students](#). Academic misconduct of any sort will not be tolerated.

TECHNICAL SUPPORT. If you have any issues related to class recordings or the Canvas page, contact Harvard University Information Technology at ithelp@harvard.edu or 617-495-7777.

CLASS SCHEDULE

Mon. January 23	Class 1	Course Introduction and Overview
Wed. January 25	Class 2	The Economic and Financial Environment of the Early 2000s
Mon. January 30	Class 3	The Drive for Homeownership in the United States
Wed. February 1	Class 4	The Basics of the Mortgage Boom and Bust
Mon. February 6	Class 5	Was the Mortgage Crisis "a Subprime Crisis"?
Wed. February 8	Class 6	From the Mortgage Crisis to the Financial Crisis (1)
Mon. February 13	Class 7	From the Mortgage Crisis to the Financial Crisis (2)
Wed. February 15	Class 8	Escalating Financial Market Stress and the Policy Response
Mon. February 20		NO CLASS: PRESIDENTSâ€™ DAY
Wed. February 22	Class 9	The 2008 Meltdown and the Policy Response

Mon. February 27	Class 10	Policies to Help Insolvent Banks and Struggling Homeowners
Wed. March 1	Class 11	Where Does the Blame Lie?
Mon. March 6	Class 12	MIDTERM EXAM
Wed. March 8	Class 13	The Euro's Three Crises
Mon. March 13		NO CLASS: SPRING BREAK
Wed. March 15		NO CLASS: SPRING BREAK
Mon. March 20	Class 14	Guest Lecture on Cryptocurrency by Tim Massad
Wed. March 22	Class 15	The Bank Panic of 2023
Mon. March 27	Class 16	The Great Recession
Wed. March 29	Class 17	New Tools of Monetary Policy
Mon. April 3	Class 18	Credit Policy as a Recession-Fighting Tool
Wed. April 5	Class 19	Financial Reform
Mon. April 10	Class 20	The Evolution of Macroeconomic Thinking in the 21 st

		Century
Wed. April 12	Class 21	The Great Lockdown of 2020
Mon. April 17	Class 22	The “Dash for Cash” and Other Pandemic Financial Stresses
Wed. April 19	Class 23	Using Fiscal Policy to Limit Economic Scarring during the Pandemic
Mon. April 25	Class 24	Rising Inflation and Monetary Policy
Wed. April 27	Class 25	Macroeconomic and Financial Risks Ahead