

SYLLABUS

Politics and Financial Crises

PS-1581
Fall 2017
4625 Wesley W Posvar Hall – 10am-12:30pm

INSTRUCTOR : Dr. Michaël Aklin
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OFFICE HOURS : Monday 1pm-2:30pm (or by appointment)

Course Objectives

Why do financial crises occur so often? And what are their consequences? Combining insights from political science and economics, we will examine why our policymakers and our institutions often fail to make the economy crisis-proof. In addition, we will examine what the consequences of these crises are at the macro (country) and the micro (individual) levels. Finally, we will think of ways in which good reforms could be implemented.

If there is any issue with the class, assignments, etc., please immediately get in touch with me. Feel free to send me an email, come to my office hours, or set up an appointment at some other time. I generally respond pretty quickly.

Requirements

The requirements for this class are the following:

1. Participation: 10%. Participation is based on class attendance, active involvement during class, and general effort put in.

2. In-class case study presentation+policy memo: policy memo explaining the causes of a specific financial crisis. The memo must take 1 to 2 pages. Besides the memo itself, an appendix explaining the issue in technical terms (e.g. relying on IS/LM) must be attached to it.

Aim: to understand the underlying mechanisms of a crisis + to communicate complex issues in a clear and accurate way.

3. Final paper. There are three components:

- Writing up a hypothesis memo and presenting it.
- Writing up a final paper and presenting it.

The final paper is a full research project. The topic is the social consequences of financial crises. What we will try to study is whether there is more social unrest after a crisis, what kind of social unrest takes place, and when? This study will involve collecting data, developing hypotheses, testing them, and communicating the result.

Aim: to complete a research project and to be able to communicate its results.

To summarize:

10%	Participation
20%	Policy memo (including presentation)
10%	Technical appendix
20%	Hypothesis memo (including presentation)
30%	Final paper
10%	Data
100%	Total

Grade scheme:

Below 60%	F					
60-62%	D-	70-72%	C-	80-82%	B-	90-92% A-
63-66%	D	73-76%	C	83-86%	B	93% and above A
67-69%	D+	77-79%	C+	87-89%	B+	

Late submission policy for any parts of the grade: *minus 5 percentage points per day*.

Textbooks & Readings

All readings will be uploaded online on courseweb.

Misc.

If you have a disability for which you are or may be requesting an accommodation, you are encouraged to contact both the professor and Disability Resources and Services, 140 William Pitt Union (412-648-7890), as early as possible in the term. DRS will verify your disability and determine reasonable accommodations for this course.

Cheating/plagiarism will not be tolerated. Students suspected of violating the University of Pittsburgh Policy on Academic Integrity, from the February 1974 Senate Committee on Tenure and Academic Freedom reported to the Senate Council, will be required to participate in the outlined procedural process as initiated by the instructor. A minimum sanction of a zero score for the quiz or exam will be imposed.

View the complete policy at www.cfo.pitt.edu/policies/policy/02/02-03-02.html.

Class Schedule

PART I: BASIC CONCEPTS

Week 1: Introduction (Aug 30)

No reading.

Week 2: Basic Concepts (Sep 6)

- Read carefully: Chapter 2, Olivier Blanchard and David R. Johnson. *Macroeconomics*. Pearson, Boston, 2013
- Read carefully: “Simple Notes on the ISLM Model”
- Skim: chapter 3, 4, 5, Olivier Blanchard and David R. Johnson. *Macroeconomics*. Pearson, Boston, 2013

Week 3: Basic Concepts (Sep 13)

- Chapter 1, 2, 3: Bruce Bueno de Mesquita, Alastair Smith, Randolph M. Siverson, and James D. Morrow. *The Logic of Political Survival*. MIT Press, Cambridge, 2003

Week 4: Research Workshop (Sep 20)

- Leanne Powner’s “Reading and Understanding Political Science”
- Notes to be distributed.

PART II: THE ORIGINS OF FINANCIAL CRISES

Week 5: Sovereign Debt Crisis (Sep 27)

- To read: chapter 4 and 6, Carmen M. Reinhart and Kenneth S. Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press, Princeton, NJ, 2009
- To read: Mauricio Drelichman and Hans-Joachim Voth. Lending to the borrower from hell: Debt and default in the age of philip ii. *The Economic Journal*, 121(557):1205–1227, 2011

Week 6: Inflation Crisis and Monetary Policy (Oct 4)

- To read: William Bernhard, J. Lawrence Broz, and William Roberts Clark. The political economy of monetary institutions. *International Organization*, 56(4):693–723, 2002
- To read: chapter 12, Carmen M. Reinhart and Kenneth S. Rogoff. *This Time is Different: Eight Centuries of Financial Folly*. Princeton University Press, Princeton, NJ, 2009
- To read: Milton Friedman. The role of monetary policy. *American Economic Review*, 58(1):1–17, 1968
- Presentations on *sovereign debt crisis*

Week 7: Banking Crisis (Oct 11)

- To read: chapter 2 and 3, Richard S. Grossman. *Unsettled Account: The Evolution of Banking in the Industrialized World since 1800*. Princeton University Press, Princeton, NJ, 2010
- Food for thought: Cassidy, John, “What Good is Wall Street?” *The New Yorker*, November 2010.
- Presentations on *inflation crisis*

Week 8: International Shocks and Bailouts (Oct 18)

Send data on two test countries.

- To read: Simon Johnson and Todd Mitton. Cronyism and capital controls: Evidence from malaysia. *Journal of Financial Economics*, 67(2):351 – 382, 2003
- To read: Michaël Aklin and Andreas Kern. Moral hazard and financial crises: Evidence from us troop deployments. Working Paper, July 2017b
- Presentations on *banking crisis*

PART III: CONSEQUENCES AND RESPONSES

Week 9: Economic and Social Consequences (Oct 25)

Policy memos due in class (hard copy and email).

- To read: Robert E. Hall. Why does the economy fall to pieces after a financial crisis? *Journal of Economic Perspectives*, 24(4):3–20, Fall 2010. URL <http://ideas.repec.org/a/aea/jecper/v24y2010i4p3-20.html>
- To read: Alexander Kentikelenis, Marina Karanikolos, Irene Papanicolas, Sanjay Basu, Martin McKee, and David Stuckler. Health effects of financial crisis: omens of a greek tragedy. *The Lancet*, 378(9801): 1457–1458, 10 2011. URL <http://linkinghub.elsevier.com/retrieve/pii/S0140673611615560>
- Presentation of the initial hypothesis memo (students 1-5).

Week 10: Political Consequences (Nov 1)

- To read: Jeffrey M Chwieroth and Andrew Walter. Financial crises and political turnover. Working Paper, n.d
- To read: Thomas B Pepinsky. The global economic crisis and the politics of non-transitions. *Government and Opposition*, 47(2):135–161, 2012
- Presentation of the initial hypothesis memo (students 5-10).

Week 11: Government Response: Austerity (Nov 8)

Hypothesis memos due in class (hard copy and email) (November 10).

- To read: Michaël Aklin and Josh Counselman. Who cuts what? government partisanship and austerity since 2008. Working Paper, August 2017
- To read: Eric Arias and David Stasavage. How large are the political costs of fiscal austerity? Working Paper, July 2016
- To read: Marina Karanikolos, Philipa Mladovsky, Jonathan Cylus, Sarah Thomson, Sanjay Basu, David Stuckler, Johan P Mackenbach, and Martin McKee. Financial crisis, austerity, and health in europe. *The Lancet*, 381(9874):1323–1331, 2013
- Presentation of the initial hypothesis memo (students 10-16).

Week 12: Central Bank Response (Nov 15)

Send data on two final countries.

- To read: Caitlin T. Ainsley. The politics of central bank appointments. *Journal of Politics*, 79(4), 2017
- To read: Michaël Aklin and Andreas Kern. Is central bank independence always a good thing? Working Paper, August 2017a

Week 13 (Nov 22)

No class (Thanksgiving).

Week 14 and 15: Conclusion (Nov 29, Dec 6)

Presentations of final projects.

Final papers due by email and in hard copy by 4pm on Dec 6.