

International Money and Finance II: Financial Crises

Area Finance, Banking and Insurance

Summer semester 2019

Topic

This course covers the topic of financial crises. We discuss different types of crises, such as banking and financial market crises, currency crises and sovereign debt crises and identify elements that are common to all types of financial crises. Recurring typologies of financial crises are described in models such as the Diamond-Dybvig model of bank runs and the Minsky model of financial cycles. Finally, we discuss case studies of different financial crises in detail and learn about policy responses to stabilize the financial system and to prevent future crises.

Syllabus

1. Introduction

- a. Financial market bubbles: manias and credit
- b. Black-swan perspective
- c. This-time-is-different perspective

2. Types of Financial Crises

- a. Defining financial crises
- b. Sovereign debt crises: External and domestic sovereign defaults
- c. Banking crises
- d. Inflation and currency crises
- e. Triple, quadruple or quintuple debt crises: Why do banking, currency and sovereign debt crises often occur at the same time?
- f. Global financial crises

3. Theories of Financial Crises

- a. The Minsky Financial Instability Hypothesis
- b. Models of the financial accelerator
- c. The Diamond-Dybvig model of bank runs
- d. Impossible trinity

4. Case Studies

- a. The Great Depression in the 1930s
- b. The Scandinavian banking crises in the 1990s
- c. The Asian currency crisis in 1997
- d. The US Subprime crisis of 2007-2008 and the global financial crisis
- e. The European sovereign debt crisis of 2010-2018
- f. Responses of monetary and fiscal policy to the Global Financial crisis of 2008 and the European sovereign debt crisis

5. Policy Responses to Financial Crises – Financial Market Regulation

- a. Microprudential regulation
- b. Macroprudential regulation

Literature

- Reinhart, C. M. and Rogoff, K. S. (2009): This Time Is Different – Eight Centuries of Financial Folly. Princeton University Press: Princeton
- Kindleberger, C. P. and Aliber, R. (2005, 5th ed.): Manias, Panics and Crashes – A History of Financial Crises, Wiley: New Jersey
- Allen, F. and Gale, D. (2007): Understanding Financial Crises, Oxford University Press: Oxford
- Hsu, S. (2013): Financial Crises, 1929 to the Present. Edward Elgar Publishing: Cheltenham, UK
- Academic papers