

ECON 325 – Historical Development of Financial and Economic Institutions Summer 2018, Pre-session

Instructor: Laura Davidoff Taylor

Email: ldavidoff@email.arizona.edu

Time and Location: MTWThF 9:00-11:50 AM, McClelland Hall, Room 120

Office Hours: MTWTh, 1:00-2:30pm, McClelland Hall, Room 401b (or by appointment)

Prerequisites:

Students must have completed, with a passing grade, ECON 200 or ECON 201A and ECON 201B.

Description of Course and Objectives:

This course covers the history of financial and economic institutions in the United States, from the revolutionary era to modern times. We will cover major events and crises that have shaped economic and financial developments, and analyze how they impacted policy and the economy. Some of the topics covered will include the development of the first central bank, the implementation of paper money, the creation of the Federal Reserve system, the adoption (and elimination) of the gold standard, and the evolution of monetary policy. Some of the crises and panics covered will include the banking crisis of 1792, the Panic of 1837, the boom and crash of 1929, and the subprime mortgage bubble. Students should leave the course with a deeper understanding of the historical context that has shaped, and continues to shape, our economy and financial system today.

Homework, Exams, Class Participation and Quizzes:

The course will be made up of in-person lectures, homework assignments, two midterm exams, and one final exam. There will also be several (short) pop-quizzes at the beginning of some classes that will count only for extra credit towards your final grade. They are intended to get students thinking about the material read for the day's lectures for in-class discussions, and to familiarize students with the style of questions that may be seen on the homework assignments and exams.

The schedule below lists readings for each day. Students are expected to complete the readings before the lectures on the dates they are listed under, and come prepared to discuss the papers and materials. I will post discussion questions on D2L the day before readings are due. These are not to be graded, but are meant to help guide students in thinking about the topics covered and to be discussed the following day. Students are required to post a comment on D2L of a few sentences or a paragraph provided reactions to the reading or thoughts on some of the discussion questions. Participation is mandatory and will count towards your class participation grade (will not be individually graded). Lectures and discussions will be based on these materials. Your class participation grade will be based on attendance and participation in discussions.

There will be **three** homework assignments that will be posted on D2L when they are available for distribution. I will provide solutions to homework assignments, which will be handed out in class (not posted on D2L). Due to the quick nature of the pre-session course, late homework assignments will not be accepted, unless approved in advance by the Instructor for special circumstances. **Homework assignments will be due on May 17th, May 24th, and May 31st AT THE BEGINNING of class.**

There will be two **midterm exams, held on May 18th and May 25th**. We will have review sessions in class the day before each midterm, so students should come to class with prepared questions on the material. If you miss a midterm without an acceptable excuse, you will receive a zero. If you have an acceptable excuse (brought to the Instructor beforehand – except for emergency situations), a make-up exam can be arranged. If you miss an exam and do not notify the Instructor beforehand, you must

have a document (doctor's note, etc.) explaining why you missed class and were not able to let the Instructor know in advance.

There will be a **final exam for the course on June 1st**. The exam will be cumulative, but will mostly cover material after the midterm. Like for the midterm, we will hold an in-class review session on May 31st.

If you have to miss a class, I strongly urge you to get notes from another student. Summer courses move quickly, and missing even one class will put you far behind in the material. If you would like to appeal your grade on an exam, you must do so within 24 hours of the instructor handing back the graded exam/providing your exam grade.

Grade Policy:

10% Class Participation

20% Homework

35% Midterm Exams (2)

35% Final Exam

Extra Credit: Pop-Quizzes in Class

Summary of Important Dates:

Homework Assignments Due: May 17th, May 24th, May 31st.

Midterm Exam #1: May 18th

Midterm Exam #2: May 25th

Final Exam: June 1st

Topic Schedule and Reading Guide

See reading list at end of syllabus for full citations.

Week 1

May 14, 2018

Course Overview and Context

Introduction to:

Financial Background (terminology and concepts)

Financial Crises

The Modern Financial System in the U.S.

The Financial Revolution of 1790-1792

Sylla, Richard (2010).

Recommended, not required: Reinhart and Rogoff (2011), **Chapter 1 (pp. 33-45)**. Available online via UA Library's website.

May 15, 2018

Hamilton and the First Central Bank; First U.S. Crisis (1792)

History of Paper Money

Readings:

Grubb (2006).

<https://www.philadelphiafed.org/-/media/publications/economic-education/ben-franklin-and-paper-money-economy.pdf>

Sylla, Wright & Cowen (2009).

Not required: Hamilton, Alexander (1790). Report on a National Bank.
<https://founders.archives.gov/documents/Hamilton/01-07-02-0229-0003>

May 16, 2018

Early Banks and Financial Markets
The Bank War and Panic of 1837

Readings:
Sylla (1998)

May 17, 2018

HOMEWORK #1 DUE at the beginning of class.

**Slavery and American Agriculture
“Free Banking”
Panic of 1857**

Review for Midterm #1

Readings:
Rolnick and Weber (1983)
Wright (2003)

May 18, 2018

MIDTERM #1 (first half of class)

Civil War: Financing and Economic Consequences

Reading: *The Civil War Disaster*. Book excerpt by Price Fishback and Carl Kitchens from unpublished manuscript.

***Discussion question responses not required on test days**

Week 2

May 21, 2018

**National Bank Era
Gilded Age Financing**

Reading: White (2003); and
Posted on D2L: pages 493-495; 502-507; 514-516 in Chapter 18 of *Atack and Passell* book.

May 22, 2018

Gilded Age and Railroad Financing (continued)

Reading: Chapter 16 in *Atack and Passell* book (on D2L)

May 23, 2018

Railroads & Land Grants; Industrial Revolution; Panic of 1873; Gold Standard

Readings:
Bordo (1981); Fishback & Kitchens unpublished chapter on U.S. Industrial Production (on D2L); Hughes & Cain Ch. 17 on industrial growth (on D2L);

May 24, 2018

HOMEWORK #2 DUE at the beginning of class

Gold Standard; Panic of 1907; Financial Capital

Midterm Review of Material to Date

Readings: DeLong (1991); Atack & Passell, selected pages from Ch. 18 (516-520), posted on D2L

May 25, 2018 **MIDTERM #2 (first half of class)**

Federal Reserve

Reading: Carlson & Wheelock (2018)

***Discussion question responses not required on test days**

Week 3

May 28, 2018 **NO CLASS – MEMORIAL DAY**

May 29, 2018 **The Federal Reserve; WWI and Big Government; 1929 Crash**

Readings: White (1990);
Hughes & Cain – Ch. 22, on the Command Economy and WW1 (*on D2L*);
Atack & Passell, selected pages from Ch. 20 (*on D2L*)

May 30, 2018 **Great Depression & New Deal Programs**

Readings: Romer (1993); Wheelock (1992)
Hughes & Cain: chapter 25 (New Deal) – posted on D2L

May 31, 2018 **HOMEWORK #3 DUE at the beginning of class**

Subprime Mortgage bubble and Global Financial Crisis

If time: Banking and Globalization; Recent Legislative Changes; New Frontiers in Financial Tools and Institutions

Final exam review

Readings: Neal (2009): Lessons from history... (*on D2L*)
Aliber and Kindleberger (2015): *chapter on Lehman collapse* (*on D2L*)
Mishkin (2011)

June 1, 2018 **FINAL EXAM**

Reading List:

Atack, Jeremy and Peter Passell (1994). *A New Economic View of American History* (2nd edition). WW Norton & Company. Selected pages posted on D2L

Berentsen, Aleksander and Fabian Schär (2018). “A Short Introduction to the World of Cryptocurrencies.”

- Federal Reserve Bank of St. Louis *Review*, First Quarter (2018), 100(1), pp.1-16.
<https://files.stlouisfed.org/files/htdocs/publications/review/2018/01/10/a-short-introduction-to-the-world-of-cryptocurrencies.pdf>
- Bordo, Michael (1981). *The Classical Gold Standard: Some Lessons for Today*. Federal Reserve Bank of St. Louis. https://files.stlouisfed.org/files/htdocs/publications/review/81/05/Classical_May1981.pdf
- Carlson, Mark and David Wheelock (2018). "Furnishing an "Elastic Currency": The Founding of the Fed and the Liquidity of the U.S. Banking System. *Federal Reserve Bank of St. Louis Review*, First Quarter 2018, pp. 17-44. <https://research.stlouisfed.org/publications/review/2018/01/10/furnishing-an-elastic-currency-the-founding-of-the-fed-and-the-liquidity-of-the-u-s-banking-system>
- Fishback, Price and Carl Kitchens, "The Civil War Disaster," in *Far More Boom and Bust: An Introduction to the Business Cycle in American History*. Unpublished Manuscript (2011). Posted on D2L.
- Grubb, Farley (2006). *Benjamin Franklin and the Birth of Paper Money*. Federal Reserve Bank of Philadelphia. Accessed at: <https://www.philadelphiafed.org/-/media/publications/economic-education/ben-franklin-and-paper-money-economy.pdf>
- Mishkin, Frederic S. "Over the Cliff: From the Subprime to the Global Financial Crisis," *Journal of Economic Perspectives* Vol. 25, No. 1 (Winter 2011), pp. 49-70.
- Neal, Larry. "Lessons from history for the twenty-first century," in Jeremy Atack and Larry Neal, eds., *The Origins and Development of Financial markets and Institutions: From the Seventeenth Century to the Present* (New York: Cambridge University Press, 2009), 450-464.
- Reinhart, Carmen M., and Kenneth S. Rogoff. This Time Is Different: Eight Centuries of Financial Folly, Princeton University Press, 2011. Available online via UA Library.
- Rockoff, Hugh "Money, Prices and Banks in the Jacksonian Era," in Stanley Engerman, *A Reinterpretation of American Economic History* (1972).
- Rolnick, Arthur J. and Warren E. Weber, "New Evidence on the Free Banking Era," *American Economic Review* 73:5 (December 1983), pp. 1080-1091.
- Romer, Christina D. "The Nation in Depression." *The Journal of Economic Perspectives* 7, no. 2 (1993): 19-39. <http://www.jstor.org/stable/2138198>.
- Snowden, Kenneth, "The Evolution of Interregional Mortgage Lending Channels, 1870-1940: The Life Insurance-Mortgage Company Connection," in Naomi R. Lamoreaux and Daniel M.G. Raff, eds., *Coordination and Information: Historical Perspectives on the Organization of Enterprise* (Chicago: University of Chicago Press for NBER, 1995), 209-55.
- Sylla, Richard. "U.S. Securities Markets and the Banking System, 1790-1840," *Federal Reserve Bank of St. Louis Review* (May/ June 1998), Vol. 8. No 3, pp. 83-98.
- Sylla, Richard. 2010. *Financial Foundations: Public Credit, the National Bank, and Securities Markets*, NBER Chapters, in: *Founding Choices: American Economic Policy in the 1790s*, pages 59-88 National Bureau of Economic Research, Inc. Accessed at: <http://www.nber.org/chapters/c11737>
- Sylla, R., Wright, R., & Cowen, D. (2009). Alexander Hamilton, Central Banker: Crisis Management during the U.S. Financial Panic of 1792. *Business History Review*, 83(1), 61-86.
- Wheelock, David. "Monetary Policy in the Great Depression: What the Fed Did and Why" *Federal Reserve Bank of St. Louis Review* March/April 1992), pp. 3-28.

White, Eugene N. "The Stock Market Boom and Crash of 1929 Revisited." *The Journal of Economic Perspectives* 4, no. 2 (1990): 67-83. <http://www.jstor.org/stable/1942891>.

White, Richard (2003). "Information, Markets, and Corruption: Transcontinental Railroads and the Gilded Age," *Journal of American History* 90 (June 2003): 19-43.

Wright, Gavin (2003). "Slavery and American Agricultural History." *Agricultural History*, Vol. 77, No. 4, pp. 527- 552.

Academic Integrity

Students are encouraged to share intellectual views and discuss freely the principles and applications of course materials. However, graded work/exercises must be the product of independent effort unless otherwise instructed. Students engaging in academic dishonesty diminish their education and bring discredit to the academic community. Students shall not violate the Code of Academic Integrity and shall avoid situations likely to compromise academic integrity. Students shall observe the generally applicable provisions of this Code whether or not faculty members establish special rules of academic integrity for particular classes. Students are not excused from complying with this Code because of faculty members' failure to prevent cheating. Violations of the University Code of Academic Integrity will result in a failing grade in the course and a recommendation for expulsion from the University.

See <http://deanofstudents.arizona.edu/>

Accessibility and Accommodations

At the University of Arizona we strive to make learning experiences as accessible as possible. If you anticipate or experience physical or academic barriers based on disability or pregnancy, you are welcome to let me know so that we can discuss options. You are also encouraged to contact Disability Resources (520-621-3268) to explore reasonable accommodation.

If our class meets at a campus location: Please be aware that the accessible table and chairs in this room should remain available for students who find that standard classroom seating is not usable.

Antidiscrimination Policy and Appropriate Behavior

The University of Arizona is committed to creating and maintaining an environment free of discrimination. In support of this commitment, the University prohibits discrimination, including harassment and retaliation, based on a protected classification, including race, color, religion, sex, national origin, age, disability, veteran status, sexual orientation, gender identity, or genetic information. The University encourages anyone who believes he or she has been the subject of discrimination to report the matter immediately as described in the section below, "Reporting Discrimination, Harassment, or Retaliation." All members of the University community are responsible for participating in creating a campus environment free from all forms of prohibited discrimination and for cooperating with University officials who investigate allegations of policy violations.

The University seeks to promote a safe environment where students and employees may participate in the educational process without compromising their health, safety, or welfare. The Arizona Board of Regents (ABOR) Student Code of Conduct, ABOR Policy 5-308, prohibits threats of physical harm to any member of the University community, including to one's self. Threatening behavior can harm and disrupt the University, its community, and its families and will not be tolerated in class.

Syllabus Subject to Change

The information contained in the course syllabus, other than the grade and absence policies, may be subject to change with reasonable advance notice, as deemed appropriate by the instructor.