

PPHA 42521 1 (Spring 2025) History of Financial Crises

Lecture time:

- Mon & Wed, 1:30pm - 2:50pm. Room 0007

TA's:

- Azri Shaharuddin - azriasyraf@uchicago.edu
- Ella Montgomery - emontgomery2@uchicago.edu

Prof. Coleman Office Hours:

- Tuesday 11am-12noon, room 3037
- Additional office hours May 16 11am-12, 4-5pm

TA sessions:

- Friday 1:30-2:50, room 0023

[Detailed reading list](#)

Money, debt, and banking have all been central to the emergence of modern nation-states, and are critical to the functioning of any economy. Financial crises, however, have been a recurrent theme in both developed and developing economies. The 2008 crisis fits into a long history. We all know the Great Depression but the U.S. also experienced speculative booms and busts in 1907-08, 1892-93, 1873. France and England suffered speculative manias in the early 1700s (the Mississippi bubble in France, the South Sea bubble in London). The goal of this course is to investigate what we can learn about money, banking, debt, and macroeconomic or systemic risk through examination of financial crises throughout history. These lessons of history are important whether it is the South Sea bubble of 1700s or the mortgage debt crisis in the United States in the 2008, financial crises have shaped our world. Understanding history is the first step towards intelligent policy.

We will examine the financial and economic history, using episodes of crisis to learn about government debt, money, and banking. We will try to understand some of the mechanisms and processes that seem to generate financial crises. We will read some of the classics as well as some of the newer texts in this area:

- *Fragile by Design* by Charles Calomiris & Stephen Haber (for a cogent and disciplined analysis of banking systems across time and across countries US, Canada, UK, Mexico, and Brazil)
- *A Free Nation Deep in Debt* by James Macdonald (an interesting hypothesis that debt capacity and debt management has been central to the growth of democratic republics)
- *A Monetary History of the United States* by Milton Friedman & Anna Jacobson Schwartz (for discussion and data on the financial crises of 1897, 1907, 1929)
- *This Time is Different Eight Centuries of Financial Folly* by Carmen Reinhart & Kenneth Rogoff (for why this time is not different financial folly has a long history)

- *Manias, Panics, and Crashes* by Charles P. Kindleberger (for a history of, but also a “theory” of financial panics)
- *Extraordinary Popular Delusions and the Madness of Crowds* by Charles Mackay (for a history of the 18th century South Sea Bubble in Britain and the Mississippi Company in France)
- *Lords of Finance* by Liaquat Ahamed (a popular and entertaining account of the 1920s and the Great Depression through the perspective of four central bankers: Strong, Norman, Moreau, Schacht)
- *Puzzles of Inflation, Money, and Debt: New Monetarism and the Fiscal Theory of the Price Level*, by Coleman, Oliver, Siegel, CFA Institute Research Foundation Brief Forthcoming 2021

The class is primarily lecture. I will try to have student presentations every-other-Wednesday. We will have to experiment to see how this works, but here is the initial plan: the week before I will choose three groups and each group will choose a topic related to the reading and course work for the following week. The following Wednesday you will do a short (15-minute) presentation in class.

I will also assign two "discussion topics" each week related to the weekly readings. Each Monday I will call on two or three students to discuss a topic. You can choose either one, but I want you to be ready to discuss the topic in class.

I will assign a few problems related to past crises. There will be a final paper due at the end of the quarter, with a proposal due by the middle of the quarter. Both problems and presentations are to be done in groups. I may assign a mid-term. Grading will be roughly 35% problems, 20% class participation, 45% final project.



THE HISTORY OF FINANCIAL CRISES

PPHA 42520 – Spring 2025

READING LIST

Thomas Coleman, tcoleman@uchicago.edu

WEEK 1:

Economist Essay on Silicon Valley Bank

- Link: <https://www.economist.com/finance-and-economics/2023/03/10/what-does-silicon-valley-banks-collapse-mean-for-the-financial-system>
- File stored [on Canvas](#)

Economist Essay on "Five Crises"

- Link: <https://www.economist.com/essay/2014/04/12/the-slumps-that-shaped-modern-finance>
- File stored [on Canvas](#)

Varieties of Crises

- Reinhart, Carmen M., and Kenneth S. Rogoff. (2009) 2011. "Chapter 1: 'Varieties of Crises and Their Dates.'" In *This Time Is Different: Eight Centuries of Financial Folly*, Reprint edition. Princeton, NJ: Princeton University Press. On electronic **Library Reserves** (see menu at left)
- Kindleberger, Charles P. 1989. "Chapter 2 & Chapter 3: Ch 2: 'Anatomy of a Typical Crisis' & Ch 3 'Speculative Manias.'" In *Manias, Panics, and Crashes: A History of Financial Crises*, Revised Edition, 16–56. New York: Basic Books. On electronic **Library Reserves** (see menu at left)

Financial Economy

- Chapter 3 ("Financial Institutions & Markets") from Cecchetti, Stephen, and Kermit Schoenholtz. 2020. *Money, Banking and Financial Markets*. 6th edition. McGraw-Hill Education.
 - Custom e-book (\$17.98): <https://www.mheducation.com/highered/custom/product/9781307696417.html>

WEEK 2:

- Calomiris & Haber, Chapter 1, "Stable & Efficient Banks – Why are They Rare?"
- Mackay, LL. D., "'The Mississippi Scheme' & 'The South-Sea Bubble.'"
- Macdonald, "Chapter 5 'The Chimera' – Library Reserve
- Macdonald, "Chapter 6: 'The Dilemma.' – Library Reserve

WEEK 3:

- Sargent, Thomas J. "U.S. Then, Europe Now." Nobel Prize lecture. Stockholm University, December 8, 2011.
http://www.tomsargent.com/research/Sargent_Sweden_final.pdf
- Calomiris & Haber, Chapter 2 & 3
- Sylla, Richard. "Financial Foundations: Public Credit, the National Bank, and Securities Markets."
- Sylla, Richard, Robert E. Wright, and David J. Cowen. 2009. "Alexander Hamilton, Central Banker: Crisis Management during the U.S. Financial Panic of 1792."
- Velde, "John Law's System."

WEEK 4: US 1792

- Calomiris & Haber, Chapter 6
- Sylla, Richard. "Financial Foundations: Public Credit, the National Bank, and Securities Markets."
- Sylla, Richard, Robert E. Wright, and David J. Cowen. 2009. "Alexander Hamilton, Central Banker: Crisis Management during the U.S. Financial Panic of 1792."

WEEK 5:

- Coleman, Thomas S., Bryan Oliver, and Larry B. Siegel. 2021. *Puzzles of Inflation, Money, and Debt: New Monetarism and the Fiscal Theory of the Price Level*. Research Foundation Brief. CFA Institute Research Foundation.
<https://www.cfainstitute.org/research/foundation/2021/puzzles-of-inflation-money-debt>
- Friedman, Milton. 1987. "Quantity Theory of Money." In *The New Palgrave: A Dictionary of Economics*, edited by John Eatwell, Murray Milgate, Peter Newman, and Robert Harry Inglis Palgrave, First, 4:3–20. London; New York; Tokyo: Macmillan ; Stockton Press ; Maruzen.
https://miltonfriedman.hoover.org/friedman_images/Collections/2016c21/Palgrave_1987_c.pdf

WEEK 6:

- Coleman, Thomas S., Bryan Oliver, and Larry B. Siegel. 2021. *Puzzles of Inflation, Money, and Debt: New Monetarism and the Fiscal Theory of the Price Level*. Research Foundation Brief. CFA Institute Research Foundation.
<https://www.cfainstitute.org/research/foundation/2021/puzzles-of-inflation-money-debt>
- Coleman, Thomas (2013), "The Natural Rate of Unemployment".
http://www.hilerun.org/econ/chicagohistory/NaturalRate_1.pdf
- Friedman, Milton (1976), "Inflation and Unemployment", Nobel Memorial Lecture.
<https://www.nobelprize.org/uploads/2018/06/friedman-lecture-1.pdf>
- Cochrane, John H. 2021. Chapter 1 *The Fiscal Theory of the Price Level*.
<https://www.johnhcochrane.com/research-all/the-fiscal-theory-of-the-price-level-1>.

WEEK 7:

- Chapters 1, 2, 3 from the special e-book from Stephen Cecchetti, and Kermit Schoenholtz. 2020. *Money, Banking and Financial Markets*. 6th edition. McGraw-Hill Education.
 - Chapter 1: “An introduction to the financial system”
 - Chapter 2: “Money and the payments system”
 - Chapter 3: “Financial instruments, financial markets, and financial institutions”
 - Custom e-book (\$17.98): use ISBN 9781307697674 for search on site <https://www.mheducation.com/highered/custom> or use this link: <https://www.mheducation.com/highered/custom/product/9781307696417.html>
- Calomiris & Haber, chapters 6 & 7
- Friedman, Milton, and Anna Jacobson Schwartz. Chapter 4.3 (“The Panic of 1907”) & Chapter 7.3 (“Bank Failures” for 1930s) & Chapter 7.7 (“Why Was Monetary Policy So Inept?” for 1930s). In *A Monetary History of the United States, 1857-1960*, 407–19 & 676–700. Princeton, NJ: Princeton University Press, 1963. On Canvas (see *Modules*) and also *Library Reserves*)

WEEK 8:

- Calomiris & Jaremski (2016) “Deposit Insurance: Theories and Facts”
- Diamond, Douglas W. 2007. “Banks and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model.” *Economic Quarterly* 93 (2): 189–200.
- Diamond, Douglas W., and Philip H. Dybvig. “Bank Runs, Deposit Insurance, and Liquidity.” *Journal of Political Economy* 91, no. 3 (June 1, 1983):
- Calomiris & Jaremski (2019) “Stealing Deposits: Deposit Insurance, Risk-Taking, and the Removal of Market Discipline in Early 20th-Century Banks”

REFERENCES (PARTIAL READING LIST)

- Acemoglu, Daron, and James Robinson. 2013. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. Reprint edition. New York: Crown Business.
- Ahamed, Liaquat. "Chapter 7 & Chapter 10: Ch7 'Demented Inspirations'; Ch 10 'A Bridge Between Chaos and Hope.'" In *Lords of Finance: The Bankers Who Broke the World*, Reprint edition., 99–129 & 179–92. New York: Penguin Books, 2009 Electronic Reserve.
- Bernanke, Ben, and Board of Governors of the Federal Reserve System (U.S.). "On Milton Friedman's Ninetieth Birthday: Remarks before the Conference to Honor Milton Friedman, University of Chicago, Chicago, Illinois," November 8, 2002. <https://www.federalreserve.gov/BOARDDOCS/SPEECHES/2002/20021108/>
- Cagan, Phillip. "The Monetary Dynamics of Hyperinflation." In *Studies in the Quantity Theory of Money*, edited by Milton Friedman. Chicago: University of Chicago Press, 1956
- Calomiris, Charles W., and Stephen H. Haber. *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit*. Reprint edition. Princeton University Press, 2015
In Bookstore.
- Calomiris, Charles W., and Matthew Jaremski. "Deposit Insurance: Theories and Facts." Working Paper. National Bureau of Economic Research, May 2016. <http://www.nber.org/papers/w22223>
NBER on-line, you may need to sign-in through UChicago Library.
- Calomiris, Charles W., and Matthew Jaremski. 2019. "Stealing Deposits: Deposit Insurance, Risk-Taking, and the Removal of Market Discipline in Early 20th-Century Banks." *The Journal of Finance* 74 (2): 711–54. <https://doi.org/10.1111/jofi.12753>.
- Cochrane, John H. 2021. Chapter 1 *The Fiscal Theory of the Price Level*. <https://www.johnhcochrane.com/research-all/the-fiscal-theory-of-the-price-level-1>.
- Coleman, Thomas S., Bryan Oliver, and Larry B. Siegel. 2021. *Puzzles of Inflation, Money, and Debt: New Monetarism and the Fiscal Theory of the Price Level*. Research Foundation Brief. CFA Institute Research Foundation. <https://www.cfainstitute.org/research/foundation/2021/puzzles-of-inflation-money-debt>
- Coleman, Thomas (2013), "The Natural Rate of Unemployment". http://www.hilerun.org/econ/chicagohistory/NaturalRate_1.pdf

- DeRosa, David. 2001. *In Defense of Free Capital Markets: The Case Against a New International Financial Architecture*. Bloomberg Press.
- Diamond, Douglas W. 2007. "Banks and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model." *Economic Quarterly* 93 (2): 189–200.
- Diamond, Douglas W., and Philip H. Dybvig. "Bank Runs, Deposit Insurance, and Liquidity." *Journal of Political Economy* 91, no. 3 (June 1, 1983): 401–19.
doi:10.1086/261155
Reprinted (2000) Fed Res Bank Mn Q Rev 24 (1), 14-23:
<https://www.minneapolisfed.org/research/quarterly-review/bank-runs-deposit-insurance-and-liquidity>
Also:
https://www.richmondfed.org/~media/richmondfedorg/publications/research/economic_quarterly/2007/spring/pdf/diamond.pdf
- Economist. "Financial Crises." *The Economist*. Accessed March 13, 2017.
<http://www.economist.com/news/essays/21600451-finance-not-merely-prone-crises-it-shaped-them-five-historical-crises-show-how-aspects-today-s-fina>
Free On-line.
- Economist. "The Slumps That Shaped Modern Finance." *The Economist* Accessed March 22, 2025. <https://www.economist.com/essay/2014/04/12/the-slumps-that-shaped-modern-finance>.
- Friedman, Milton (1976), "Inflation and Unemployment", Nobel Memorial Lecture.
<https://www.nobelprize.org/uploads/2018/06/friedman-lecture-1.pdf>
- Friedman, Milton, and Anna J. Schwartz. "Chapter 4. The Basic Data." In *Monetary Trends in the United States and United Kingdom: Their Relation to Income, Prices, and Interest Rates, 1867–1975*, NBER., 98–137. University of Chicago Press, 1982. <http://papers.nber.org/books/frie82-2>
On-line at NBER.org.
- Friedman, Milton, and Anna Jacobson Schwartz. "Appendixes A & B." In *A Monetary History of the United States, 1857-1960*, 701–808. Princeton, NJ: Princeton University Press, 1963
Electronic Reserve.
- . "Chapter 7 & Chapter 13: Ch 7 Part 7: 'The Great Contraction, 1929-33 / Why Was Monetary Policy So Inept?' & Ch 13: 'Summing Up.'" In *A Monetary History of the United States, 1857-1960*, 407–19 & 676–700. Princeton, NJ: Princeton University Press, 1963
On-line at UChicago Library.

- Kindleberger, Charles P. "Chapter 2 & Chapter 3: Ch 2: 'Anatomy of a Typical Crisis' & Ch 3 'Speculative Manias.'" In *Manias, Panics, and Crashes: A History of Financial Crises*, Revised Edition., 16–56. New York: Basic Books, 1989
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- Macdonald, James. "Chapter 5 & Chapter 6: Ch 5: 'The Chimera' & Ch 6: 'The Dilemma.'" In *A Free Nation Deep in Debt: The Financial Roots of Democracy*, 1st Princeton Ed edition., 179–271. Princeton, N.J.: Princeton University Press, 2006
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- Mackay, LL. D., Charles. "'The Mississippi Scheme' & 'The South-Sea Bubble.'" In *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds*, 1–88. New York: Farrar Straus Giroux, 1932. <http://www.gutenberg.org/ebooks/636>
On-line at Gutenberg.org.
- Reinhart, Carmen M., and Kenneth S. Rogoff. *This Time Is Different: Eight Centuries of Financial Folly*. Reprint edition. 2009. Reprint, Princeton, NJ: Princeton University Press, 2011. <http://www.reinhartandrogoff.com>
{:original-date: 2009} Bookstore.
- Reinhart, Carmen M., and Kenneth S. Rogoff. 2010. "Growth in a Time of Debt." *American Economic Review* 100 (2): 573–78. Library web-site
- Riker, William H. 1988. *Liberalism Against Populism: A Confrontation Between the Theory of Democracy and the Theory of Social Choice*. San Francisco: Waveland Pr Inc.
- Rousseau, Peter L. 2016. "The Politics of Financial Development: A Review of Calomiris and Haber's *Fragile by Design*." *Journal of Economic Literature* 54 (1): 208–23. <https://doi.org/10.1257/jel.54.1.208>.
- Sargent, Thomas J. "U.S. Then, Europe Now." Nobel Prize lecture. Stockholm University, December 8, 2011.
http://www.tomsargent.com/research/Sargent_Sweden_final.pdf
- Sylla, Richard. "Financial Foundations: Public Credit, the National Bank, and Securities Markets." In *Founding Choices: American Economic Policy in the 1790s*, edited by Richard Sylla and Douglas Irwin, 59–88. University Of Chicago Press, 2010.
<http://www.nber.org/chapters/c11737.pdf>
- Sylla, Richard, Robert E. Wright, and David J. Cowen. 2009. "Alexander Hamilton, Central Banker: Crisis Management during the U.S. Financial Panic of 1792." *The Business History Review* 83 (1): 61–86.
- Velde, François R. "John Law's System." *The American Economic Review* 97, no. 2

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