FINANCIAL CRISES AND RECESSIONS OF THE 21ST CENTURY
SPRING 2022

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. 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
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Office hours: Selected times on Wednesday and Thursday afternoons
To see the available appointments and sign up, go to this link

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Staff assistant: Eric Unverzagt, Economics Department, Littauer 316, North Yard
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Course schedule: Monday and Wednesday 1:30pm-2:45pm in Sever Hall 113

Course website: https://canvas.harvard.edu/courses/100546

PREREQUISITES. Intermediate macroeconomics (Ec 1011B or Ec 1010B) or by permission of the instructor. Students should have some familiarity with business 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 “dash 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 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. Be sure to comply with the Harvard guidelines for masking and other pandemic-related protocols.

SECTIONS. Recommended. Time and place to be arranged.

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 by the first week of class]:

Assignment 1: Monday February 14
Assignment 2: Monday February 28
Assignment 3: Monday March 28
Assignment 4: Monday April 11
Assignment 5: Monday April 25

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 7 in class.
• The final exam will be a three-hour exam on Saturday May 7 at 9:00am

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 Eric Unverzagt 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

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<td>Mon. March 14</td>
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READINGS

The readings marked with ** are required. The other readings contain material that I will draw off for the class lectures and will be useful for students who want to do a deeper dive on these topics.

Class 1—Course Introduction and Overview

The goal of this class is for you to come out with a good sense of what you will get out of the course and some idea about how the material we will be covering in each individual class fits in with the "big picture."


Class 2— Antecedents 1: Economic and Financial Environment

The goal of this class is to familiarize you with key background factors that will come up repeatedly as we discuss how the financial crisis unfolded in coming classes.


Congressional Budget Office. The Distribution of Household Income. August 4, 2021. (There are a lot of sources on trends in inequality over the decades but if you are interested in what's happened at the household level over the last couple of decades, I think that CBO's numbers are the best.)


Class 3— Antecedents 2: The Drive for Homeownership in the United States

The goal of this class is to offer background that will help you think about the role that the drive for homeownership in the United States played as you learn more about the financial crisis in coming classes.


Class 4—The Basics of the Mortgage Boom and Bust

The goal of this class is for you to understand the defining traits of the mortgage boom and bust as well as some key developments in mortgage finance that played a role.


Class 5—Was the Mortgage Crisis a “Subprime Crisis”?

The goal of this class is for you to understand one of the most important debates around the mortgage boom and bust of the early 2000s.


Class 6—From the Mortgage Crisis to the Broader Financial Crisis: Part 1
The goal of this class is for you to understand some key features of the shadow banking system; we will build on this material in the next class when we discuss why the pre-crisis shadow banking system was vulnerable to runs.


**Asset-Backed Commercial Paper (ABCP).** Investopedia.


**Class 7—From the Mortgage Crisis to the Broader Financial Crisis: Part 2**

The goal of this class is for you to understand some key ways in which the financial system was exposed to losses and dysfunction in the period leading up to the financial crisis.

** Leverage Ratio.** Marginal Revolution University.


**Class 8—Escalating Financial Market Stress and the Policy Response**

The goal of this class is for you to understand the early stages of the financial crisis—why stresses began to mount, what policymakers did in response, and why things continued to escalate.

**The Day the Market Died.** This American Life. October 3, 2008


Class 9—The 2008 Meltdown and the Policy Response

The goal of this class is for you to understand the specific events that drove the most intense phase of the financial crisis, the trade-offs that policymakers were weighing as they took various steps to rescue the financial system, and the consequences of these policy actions.


Class 10—Policies to Help Insolvent Banks and Struggling Homeowners

The goal of this class is to finish off our discussion of the key ways in which the government mitigated the financial crisis; after doing so (either in this class or the next class) we will circle back to review the broad lessons we have learned.

**TARP Programs Website.** US Treasury Department.


Class 11—Where Does the Blame Lie?

The goal of this class is to pull together what we have learned about various potential contributing factors to help you form your own opinions about where the blame lies for the financial crisis.

**FCIC report official conclusions.** No need to read all 14 pages—just skim the bolded headlines.

**Dissent by FCIC members Hennessey, Holz-Eakin, and Thomas,** Pages 414-417.

**Dissent by FCIC member Wallison,** Pages 444-447.


Class 12—MIDTERM EXAM

Class 13—Bitcoin, Stablecoins, and CBDCs (GUEST LECTURE BY TIM MASSAD)

The goal of this class is for you to gain a basic understanding of current policy issues around cryptocurrency.

Class 14—The Euro’s Three Crises

The goal of this class is for you to understand the Euro crisis and gain some insight into sovereign debt crises more generally.

**Who is to Blame for Greece’s Crisis?,** by Mohamed el-Erian for The Guardian. May 18, 2012.


Frankel, Jeffrey. The Euro’s First 20 Years. January 2019.


Class 15—Recessions and Their Costs

The goal of this class is for you to understand the costs of recessions so that you can fully appreciate what was at stake in developing policies to fight the Great Recession.


**Class 16—Fiscal Policy Choices during the Great Recession**

*The goal of this class is for you to understand the fiscal policy choices made during the Great Recession and how they shaped our thinking about countercyclical fiscal policy going forward.*

**Letter to Senator Simeon Hess**, Outgoing President Herbert Hoover. February 21, 1933.


**Class 17—Monetary Policy Tools Introduced during the Great Recession**
The goal of this class is for you to understand monetary policy choices made during the Great Recession and how they shaped our thinking about countercyclical policy going forward.


**Class 18—Credit Policy as a Recession-Fighting Tool**

The goal of this class is to familiarize you with US government credit policy and how it affected the economy and individuals in the years following the financial crisis.

**Putting Student Loan Forgiveness in Perspective: How Costly is It and Who Benefits?** By Adam Looney for Brookings. February 12, 2021.

Dynan, Karen. What’s Wrong with Student Loans (and How to Fix It). October 2019.


**Class 19—Financial Reform, Part 1**
The goal of this class is for you to learn the major ways in which US financial regulation was changed after the financial crisis.


Class 20—Financial Reform, Part 2

The goal of this class is for you to learn the major ways in which US financial regulation was changed after the financial crisis and also to help you understand key outstanding questions and unaddressed issues.


Class 21—The Evolution of Macroeconomic Thinking in the 21st Century

The goal of this class is for you to learn about some of the newer ideas that macroeconomists have been discussing, with particular emphasis on their implications for policy.


Ng, Michael and David Wessel. The Hutchins Center Explains: The Neutral Rate of Interest. October 2018.


Yellen, Janet. Former Fed Chair Janet Yellen on Why the Answer to the Inflation Puzzle Matters. October 2019.

**Class 22—The Great Lockdown of 2020 and the Fiscal Response**

*The goal of this class is to give you an introduction to the pandemic recession and the fiscal response.*

**The Lasting Scars of the COVID-19 Crisis: Channels and Impacts.** By Jonathan Portes for VOXEU, June 1, 2020.


**Class 23—The “Dash for Cash” and Other Pandemic Financial Stresses**

*The goal of this class is for you to understand the financial and monetary policies deployed during the current economic crisis.*


**Class 24—High Inflation and Monetary Policy**

The goal of this class is for you to be able to engage in informed discussion about the rise in inflation over the past year and the implications for monetary policy.

**Do not expect the Fed to engineer a soft landing, says WSJ's Greg Ip.** CNBC. March 23, 2022.


Kiley, Michael. Anchored or Not: A Short Summary of a Bayesian Approach to the Persistence of Inflation. FEDS Notes, April 2022.

**Class 25—Wrapping Up**

The goal of this class is wrap up our EC 1746 semester!

Optional Google Form to submit your question. Any course-related topic is suitable, whether backward-looking or forward-looking, practical or theoretical, financial or real-side.