

Economics 313, The Great Recession

Fall 2017

Bates College

Paul Shea

Class Times: Tuesdays and Thursdays, 1:10-2:30 PM

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Office Hours: Monday, 12:30-1:30 PM, Thursday, 2:30-3:30 PM, and by appointment.

Office: 270 Pettingill.

Course Website: www.paulshea.com. This site includes lecture notes, class announcements, readings, and assignments. Note that the class website is unrelated to Lyceum.

Course Description: This seminar examines the events of the recent recession, as well as its causes and aftermath. Special attention is paid to the housing bubble that preceded the recession, how the crisis in the housing sector spread to the rest of the economy, the response of monetary, fiscal, and regulatory policies, and the disappointing rate of recovery after the official end of the recession. The seminar focuses both on refining students' theoretical and empirical skills, and on applying them to recent macroeconomic events.

The recession was an extraordinarily complex event. Tools from diverse areas including macroeconomics, microeconomics, law, finance, political science, and other disciplines contribute to its understanding. Even with a full semester, we will only cover a small fraction of the material that I find worthwhile. If students are interested in an aspect of the recession that class ignores or brushes over, I hope that you will consider making it the basis of the course's required research paper.

Prerequisites: Econ 255 and 270.

Reading Materials: There is no assigned textbook. Students, however, are encouraged to acquire an intermediate macroeconomics textbook (an older edition will probably be fine). Readings will

be assigned for each topic. These will range from non-technical sources such as popular press articles and op/ed pieces to technical articles written for a more academic audience.

Assignments: Your grade consists of the following:

- i) A final paper. This assignment will be discussed in greater detail early in the term. **35% of your grade.**
- ii) A take home midterm. Details will be provided early in the term. You will be given a range of dates, and you will be allowed to choose exactly when you take the midterm. The format is similar to a short paper. **20% of your grade.**
- iv) A short (about 10 minutes) class presentation on a policy issue related to the recent economic downturn. This assignment will also be discussed in greater detail early in the term. **15% of your grade.**
- v) Periodic homework assignments. **15% of your grade.**
- vi) A final short quiz during the scheduled final exam time for this class (Thursday, 12/14/17, 3:45 PM). **15% of your grade.**

The following process will determine each student's final grade:

1. All grades will be converted into numerical scores using the standard $A+ = 4.33$, $A = 4$, $A- = 3.67$, $B+ = 3.33$, etc. scale.
2. I will then take a weighted average of these scores and round to the nearest third. The final letter grade will then be determined by the scale from 1.
3. I may then adjust the cutoffs for final letter grades to reflect my subjective assessment of student performance. I will not lower any student's grade in this manner.
4. All students shall have the same opportunity to succeed in this course. There is no extra credit. Please do not ask.

5. I reserve to bump up a student's final grade, up to 2/3 of a letter grade, if their participation in the class constitutes a major positive externality to the rest of the class.

Contesting of Grades: Every effort is made to ensure that grades are accurate and consistent. I do not want to give any student an erroneous grade. If you believe that a grading error has been made, please bring it to my attention promptly after the assignment has been handed back. I will only consider possible grading errors for two weeks after an examination has been passed back. All grade appeals must be submitted in writing.

All exams and homework assignments will be counted immediately after they are handed in to ensure that the number received equals the number graded. Save all of your graded work. If I have no record of a completed assignment, and if you cannot present your graded assignment, then you will receive no credit for the assignment in question.

Inability to Complete Course Requirements: If you know that you cannot attend an exam or complete an assignment due to a non-college excused commitment, do not take this class. If an unanticipated commitment arises that prevents you from satisfying any of the course requirements, you must have your conflict verified by the appropriate college agency. Be aware that this office will require documentation of all illnesses and deaths in the family. I will not personally judge the validity of students' conflicts. I reserve the right to either offer a makeup or roll the weight of the missed exam into the other graded elements of the course.

Academic Dishonesty: I will pursue any instances of academic dishonesty. Historically, I have been very aggressive in investigating and sanctioning cheating.

Students with Disabilities: If you have a documented disability and need an accommodation, please make arrangements with me during the first week of the term. Please request that the Dean of Student's office send me a letter verifying your disability. You are unlikely to receive any substantial accommodation if you wait until right before an exam to notify me.

Please note that I am not qualified to diagnose a disability. You must therefore always go

through the College.

Class Schedule: The following outline is tentative. Time considerations and new macroeconomic developments will likely require additions or subtractions. I am also not claiming to cover all aspects of the macroeconomic downturn, doing so would be impossible in 12 weeks. Changes will be made if new developments require.

1. The Housing Bubble

- a. Description, Data, and Overview
- b. Asset Pricing Theory and Speculative Bubbles: Several Explanations for Why They Occur
- c. The Role of Fiscal Policy, Monetary Policy, Regulation, and the Global Savings Glut
- d. A Historical Examination of Housing and the Business Cycle

2. Propagation and Panic

- a. Mortgage Backed Securities and Other Other Important Financial Instruments
- b. Macroeconomics and Credit Cycles: Some Theory and a Little Empirical Evidence
- c. Storytime: The Financial Panic of 2008

3. Monetary Policy

- a. Theory and Evidence that Money Matters
- b. Conventional Monetary Policy, Expectations Management, and and the Zero Lower Bound
- c. Non-Conventional Monetary Policy: TARP, Quantitative Easing, etc.

4. Fiscal and Regulatory Policies

- a. Theory and Evidence on How Much it Matters
- b. The Stimulus Packages
- c. The Automotive Bailout and Dodd-Frank

5. Aftermath

- a. Unemployment and Labor Force Participation: Is the Recovery Complete?
- b. The European Debt Crisis
- c. The Japanese Situation
- d. The U.S. Fiscal Situation: Short and Long Term
- e. Brexit
- f. Monetary Policy Normalization