Aix-Marseille School of Economics – Aix Marseille Université
AMSE Master Program
Applied Economic Problems
The 2008-09 financial crisis

September 12, 19, 26 and October 3, 2013

Patrick Pintus[1]

Course Outline:

The lectures aim at shedding some light on the causes of the recent global crisis. More precisely, we will go back to and concentrate on the outset of the 2008-09 financial crisis in the US. In the first part, we will focus on the sequence of events and emphasize how the interaction of the housing, credit and asset markets has led to the most severe financial meltdown since the 1930s in the US. The second and last parts will be more analytical and devoted to isolating and understanding the mechanisms that may originate such boom-bust behavior of both the financial markets and the real economy. More specifically, we will examine this issue through the lens of a very simple macroeconomic model. The idea is not to do lots of computations to solve the model but rather to use it as a vehicle to highlight the main mechanisms that may lead to credit booms and drive the economy up high and down low.

Road Map:

I. *Tracing the origins of the 2008-09 US financial crisis: the interaction of the housing, credit and asset markets.*

References[2]: Bullard *et al.* (2009), Rajan (2009), Tirole (2008).

II. *Procyclical collateral and credit cycles.*

References: Kyotaki and Moore (1997), Pintus and Wen (2012).

III. *Collateral scarcity, capital misallocation and bubbles.*

Reference: Kocherlakota (2009), Mendoza and Terrones (2012).

[1] Professor of Economics. E-mail address: patrick.pintus@univ-amu.fr. Phone: 04 91 14 07 50 (office number at GREQAM: 326).

[2] The slides for the class are based on the listed papers. However, the lectures are self-contained so that reading the papers referenced below is strongly recommended, though not strictly required for the examination.

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1. Bullard J., Neely C., Wheelock D. (2009). "Systemic risk and the financial crisis: a primer". Federal Reserve Bank of St. Louis *Review,* sept.-oct: 403-417. (http://research.stlouisfed.org/publications/review/)

2. Kiyotaki N., Moore, J. (1997). "Credit cycles". *Journal of Political Economy,* 105: 211-48. (http://www.jstor.org/)

3. Kocherlakota N. (2009). "Bursting bubbles: consequences and cures". University of Minnesota and Federal Reserve Bank of Minneapolis *mimeo.* (http://www.imf.org/external/np/seminars/eng/2009/macro/pdf/nk.pdf)

4. Mendoza E., Terrones M. (2012). An anatomy of credit booms and their demise. NBER working paper 18379. (http://econ-server.umd.edu/~mendoza/wp/w18379.pdf)

5. Pintus P., Wen Y. (2012). "Leveraged financing and boom-bust cycles". Federal Reserve Bank of St Louis working paper. (http://research.stlouisfed.org/wp/2010/2010-027.pdf)

6. Rajan R. (2009). "The credit crisis and cycle-proof regulation". Federal Reserve Bank of St. Louis *Review,* sept.-oct: 397-402. (http://research.stlouisfed.org/publications/review/).

7. Tirole J. (2008). "Leçons d'une crise". TSE notes n°1. (http://www.tse-fr.eu/)

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