Course Description

This course is intended to provide an overview of extremes (characterized by both extraordinary optimism and severe despair) that have taken place in financial markets. Although the course can best be thought of as a survey, particular attention will be paid to 20th and 21st century events as well as the underlying commonalities that seem to recur in booms and busts.

Although the course is focused upon bubbles, crashes, manias, panics, and crises, it begins by evaluating the academic literature that dismisses the likelihood of these events—namely the efficient market hypothesis. A critical review of the theory is presented, as well as some competing theories. Academic and managerial perspectives are simultaneously evaluated. Possible explanations for the existence of financial extremes are then evaluated (psychological factors, monetary policy, etc.) before the course turns to the ramifications of and policy responses to financial extremes. The goal for the first half of the course will be for the class to develop a multi-disciplinary theoretical framework through which to evaluate and contextualize financial market extremes.

The second half of the course will focus on case studies of financial market booms and busts. Each example will be evaluated via the multidisciplinary theoretical lens developed in the first half of the course. The course concludes with the class collectively developing the “anatomy” of a “typical” financial market extreme. While each of the studied cases will have had unique elements, the objective for the course will be to coalesce these findings into an understanding of the general characteristics that precede, promote, and ultimately reverse bubbles and manias into crashes, panics, or crises. The semester will end with student groups presenting what they believe to be the most likely next “boom-bust” cycle.

While the course will serve as useful preparation for students interested in further academic work on the topic of asset pricing, behavioral finance, or monetary policy, it is also designed to give students an appreciation for the complexities of financial market extremes and policy responses to them. Upon completion of the course, students will be more informed participants in (as investors) and regulators of (as voting citizens) financial markets.
**Evaluation Criteria / Requirements**

*Classroom Participation (25%)*

The course is designed to be a highly interactive and critical evaluation of the required readings. Given this design, it is absolutely essential that all students come prepared (having completed the readings) and participate in classroom discussion.

*Weekly One-Page Reactions (15%)*

Each week, on the night before the seminar, students are to email to the instructor a one-page written reaction to the readings by 9pm. These weekly reaction papers can be about any topic addressed in that week’s reading materials.

*Final Project / Presentations (15%)*

The last meeting of the seminar will be used for student presentations. These presentations will be about potential future financial market extremes. Students will work in teams of three. Each presentation will be no more than 5 minutes in length, and teams should make their “story” as believable as possible. Summary handouts (1 page) are recommended. One or two guests who actively participate in the financial markets will likely join this session to supplement instructor feedback.

*Outline / Abstract / Bibliography (10%)*

An outline or abstract of the final paper (see below) will be due before Thanksgiving break. Please be as thorough as possible in providing an overview of the topic you plan to address.

*Final Paper (35%)*

The last requirement for each student is the on-time submission of a final paper. Although the paper may be about any topic related to financial market extremes, it is important that it be more than simple fact reporting. The paper is expected to be approximately 15 pages (but no more than 20 pages) in length (double spaced, Times Roman 12 point font, with 1” margins).

**Instructor Contact Information**

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Course Outline

Week 1: Introduction and Overview: Why Study Financial Market Extremes?
(READING: 85 pages)

Week 2: A (Brief) History of Financial Markets and Speculation
(READING: 52 pages + video)

Week 3: The Theoretical Context: (In)Efficiency and Asset Markets
(READING: 86 pages + video)

Week 4: The Psychological Roots of Extremes: Behavioral Finance and Asset Prices
(READING: 116 pages)

Week 5: The Macroeconomic Origins of Extremes: Monetary Policy & Credit
(READING: 246 pages)

Week 6: The Ramifications of and Policy Responses to Financial Market Extremes
(READING: 142 pages)

Week 7: Financial Market Extremes in the 17\textsuperscript{th}, 18\textsuperscript{th}, & 19\textsuperscript{th} Centuries
(READING: 225 pages)

Week 8: The Great Depression
(READING: 290 pages)

Week 9: The Japanese Boom and Bust
(READING: 267 pages)

Week 10: The Asian Financial Crisis
(READING: 146 pages)

Week 11: The Internet / Technology Bubble
(READING: 214 pages)

Week 12: The Global Credit Crunch of 2008
(READING: 294 pages)

Week 13: Course Summary & Student Presentations
(READING: 141 pages)
Weekly Readings

Week 1: Introduction and Overview: Why Study Financial Market Extremes?  
(PLEASE READ BEFORE FIRST CLASS)


Week 2: A (Brief) History of Financial Markets and Speculation


VIDEO: “THE ASCENT OF MONEY” (2 hour version)  
(http://www.pbs.org/wnet/ascentofmoney)

Week 3: Microeconomic Context: (In)Efficiency and Asset Markets


Soros, George. The Theory of Reflexivity. Talk Delivered on April 26, 1994 to the MIT Department of Economics World Laboratory Conference. (6 pages)
VIDEO: George Soros Interview at MIT by Roberto Caballero
(http://mitworld.mit.edu/video/633)

Week 4: The Psychological Roots of Extremes: Behavioral Finance and Asset Prices


Week 5: The Macroeconomic Origins of Extremes: Monetary Policy & Credit


Week 6: The Ramifications of and Policy Responses to Financial Market Extremes


Week 7: Financial Market Extremes in the 17th, 18th, & 19th Centuries


Week 8: The Great Depression


Spring, Samuel. “Whirlwinds of Speculation” *The Atlantic Monthly,* April 1931. (10 pages)


Week 9: The Japanese Boom and Bust


Week 10: The Asian Financial Crisis


Week 11: The Internet / Technology Bubble


**Week 12: The Global Credit Crunch of 2008**


**Week 13: Course Summary & Student Presentations**


**Required Texts**

Allen, Frederick Lewis. *Only Yesterday: An Informal History of the 1920s.*


Gross, Daniel. *Pop! Why Bubbles are Great for the Economy.*


Shiller, Robert J. *Irrational Exuberance.*


**READING PACKET TO BE AVAILABLE FOR PURCHASE WITH ALL ARTICLES**

**Optional Texts**


Wood, Christopher. *The Bubble Economy: Japan’s Extraordinary Speculative Boom of the 80s and the Dramatic Bust of the ’90s.*