Theoretical dimension of the current financial crisis.

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The present lecture explores the current financial crisis from its theoretical grounds and then expends to macroeconomics issues and economic policy implications. It intends to give students a deeper understanding of current financial dynamics, from the empirical but also the theoretical levels.

Lecture 1

The current financial crisis and its predecessor.

The current financial crisis has been anticipated by the US *Savings and Loans* crisis, which exploded on the US mortgage market from 1990 to 1992 (Doc. A). This crisis can be seen as the harbinger of the current one.

The current crisis main causes are numerous and range from the mortgage market to financial developments of the late 90's and beginning of the new century. The e-book *Crash* edited by **E. Fulbrook** contains then papers on the different aspects of this crisis. Responsibilities of the "High Finance" are described in **F. Lordon** paper (*Subprime, ninja loans, derivatives and other financial fantasies*). The mortgage bubble economics are described in the following two papers, authored by **Ian Fletcher** and **Dean Baker** (*The global economy bubble equilibrium* and *The housing bubble and the financial crisis*).

The propagation of the crisis to the US economy and to the rest of the world is described in **J. Sapir**'s paper (*Global finance in crisis*). Then you will have a paper on the world trade written by **D. MacKenzie** (*End of the World Trade)* and a paper more on technicalities explaining why the LIBOR became the benchmark of the financial crisis (*What's in the number? The importance of LIBOR*) still by **D. MacKenzie**.

The impact of securitization has been forecasted by a paper of the Late H.P. Minsky, who has emerged as the most influential economist from the crisis.

Doc. A: Cost of the S&L crisis.
Doc. B: Crash (an E-book on the crisis edited by the chief editor of the *Post-Autistic review* with many important papers).
Doc. C: Minsky-securitization.

Lecture 2

Theoretical grounds of crisis: the necessity of institutionalism.

This crisis has made the re-learning of institutional economics an absolute necessity. It has the fallacy of "mainstream" economics not just on the realism issue but also for assessing agents

behaviour. The crisis proved that most institutional economics authors (from Veblen to Keynes) have been right.
The two Nobel-Prize lectures from **J. Stiglitz** and **G. Akerlof** (Doc A. and B.) deserve a careful reading. As Stiglitz explores different issues of market failures, Akerlof focuses on the psychological dimension of economics and the relevance of the new applied psychology.

A. Tversky and D. Kahneman then explore the psychological dimension in a joint paper and a separate one. The first paper raises the emphasis on the importance of the "framing effect", which can explain many deviations from the standard rationality pattern. The second paper, which is **D. Kahneman's** Nobel lecture, summarizes most of applied psychology findings. This dimension is also extremely important, not just to understand how real actors are acting but also to understand how much traditional economics have erred (Doc. C. and D.).
This would gave credence to what the famous British economist, **G. Hodgson**, claimed to be the revival of "Veblenian" economics (Doc. E)

Doc. A: Stiglitz – Nobel lecture.
Doc. B: Akerlof-Behavioral macro.
Doc. C: Tversky-Kahneman Framing effect
Doc. D: Kahneman Nobel lecture
Doc. E: Revival Veblenian Institutional economics.

Lecture 3

From the collapse of monetarism to the "new consensus".

The crisis has let the world to wonder what would be a "good" monetary policy, as Central bank have brutally reversed their practice on the interest rate. The debate has here been focused on what has been called a "new consensus" in macroeconomics.

At the beginning of the story was the collapse of old-fashioned monetarism, the story of its rise and fall (Doc. A. written by **James Galbraith**, the son of the Late K. Galbraith).
This collapse gave birth to what has been called the "new consensus" (Doc. B and C.), which is investigated by **P. Arestis** and **G. Fontana**. The "new consensus" proclaimed to be grounded on safer microeconomics basis than older models. This pretence has not been vindicated and there are serious doubts on what are called "rational expectations".
The issue of Central Bank independence has been one of the most contested points and has been the focus of a renewed debate in the light of the current crisis as demonstrated by **R. Wray** (Doc. D).
The so-called "New Consensus" left unanswered too the important question of the volatility of capital flows on capital markets. This topic is addressed by **J. Kregel** (Doc. E). This had raised the issue the cost of accumulating Foreign Exchange reserves particularly in the light of developing country recent experiences and **D. Rodrik** is examining what has been the social cost of accumulating huge Forex reserves (Doc. F).

Doc. A: Galbraith- The collapse of Monetarism.
Doc. B: Arestis- The New Consensus.
Doc. C: Fontana-Wither the new consensus?
Doc. D: Wray-Post-Keynesian view on Central Bank independence.
Doc. E: Kregel-Managing the impact of volatility on Capital markets.
Doc. F: Rodrik - The Social Cost of Foreign exchange reserve.

Lecture 4

Free trade, the exchange rate and the global unbalance.

In the end, the current financial crisis can be seen as the end of the Globalization. The myths of the globalization have been exposed by **Bairoch** and are to be studied (Doc. A) as well as the partial reversal of one of the main free-trade supporter, **Paul Krugman** (Doc. B).
The real exchange rate is to become a very important factor then in the post-Globalized world, as a result of disappointment with the financial globalization (Doc. C and E), two issues dealt with by one of the leading international economy specialist, **Dani Rodrik.**
This is leading us to the issue of how to protect economies from these capital inflows or outflows (Doc. F) a point dealt with by **Jorg Bibow**.

Doc. A: Paul Bairoch-Globalization myths.
Doc. B: Krugman on trade.
Doc. C: Dani Rodrik on the real exchange rate.
Doc. E: Dani Rodrik Why did financial globalization disappoint?
Doc. F: Biböw-Insuring against capital flow.