

The Economics of Catastrophe

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Dr. Paul Kubik (pkubik@depaul.edu)

Introduction

Writing about his experiences in the Spanish Civil War (1936-39), the novelist George Orwell noted that: "[w]hen you are taking part in events like these you are, I suppose, in a small way, making history, and you ought by rights to feel like an historical character. But you never do, because at such times the physical details always outweigh everything else... What I was chiefly thinking about was not the rights and wrongs of this internecine scrap, but simply the discomfort and boredom of sitting day and night on that intolerable roof, and the hunger which was growing worse and worse." *Homage to Catalonia* (1938).

In a tragically similar way, we are living myopically today amidst unprecedented events. In the span of just over a decade we have in fact lived through two historic events: the housing market-driven Crash of 2008 which ultimately destroyed \$24 trillion in assets in the U.S. and the COVID-19 outbreak. This course will focus primarily on these events, but seek as well to consider similar, more distant events to offer a bit of perspective and hopefully a greater understanding of the importance or unimportance of economic, political or social developments.

In studying the housing market collapse of a decade ago, we shall consider the character of economic panics more broadly to create a pattern for a discussion of more recent (and certainly future) similar events. The primary texts for this part of the class will be Martin Neil Baily, Robert E. Litan, and Matthew S. Johnson. "The Origins of

the Financial Crisis.” Brookings Institution. November 2008 [accessible at brookings.edu/wp-content/uploads/2016/06/11_origins_crisis_baily_litan.pdf] and Patricia Cohen, 2009. “Ivory tower unswayed by crashing economy,” *New York Times*, 5 March. 2021. The former provides the details of the Crash, the latter speaks briefly about the lack of early impact the Crash had on academic economists. An excellent supplementary text is *Manias, Panics and Crashes* by Charles P. Kindleberger (1978). A series of narrated PowerPoint presentations will be made available on D2L as background for your research work on the Crash. To get a feel for the temper of the day video is best: see for example *Inside Job* (2010) and/or the 54 minute piece: www.pbs.org/wgbh/frontline/film/meltdown/.

The COVID-19 outbreak, like the not too distant financial crash, has had devastating effects on economies around the world. The closest parallel to this event occurred a century ago in 1918-20, which led to the loss of an estimated 20-50 million lives. After a comparison of that event to contemporary events, an attempt will be made to consider the economic effects. The primary starter text for this section of the course is Garrett, Thomas A. “Pandemic Economics: The 1918 Influenza and Its Modern-Day Implications.” *Federal Reserve Bank of St. Louis Review*, March/April 2008, 90(2), pp. 75-93. Our understanding of the pandemic and its effects, driven in part by the evolving character of the virus and the nature of the scientific process itself, is constantly changing and, hopefully, improving. A relatively recent (December 2021) video of an interview of a Yale physician and sociologist accessible at www.pbs.org/wnet/amanpour-and-company/video/yale-sociologist-covid-19-will-reshape-humanity/ provides some background information on the current omicron variant.

These texts are a brief and incomplete treatment of the very large subject matter addressed in this course. The most significant materials to rely on will be uncovered in the course of your research efforts.

As a capstone class though, we will dig just a little deeper, using the discussion of these two focal events, the crash and pandemic, to examine conclusions about the role of the state in the economy, about the sources of income and wealth inequality and to consider the epistemological question of how we know what we know.

Grading

In a capstone course two of the primary objectives are to 1) apply one or more theories or concepts from courses within their major to an analysis of a particular issue relevant to the major and 2) to identify an idea, method, or concept from a discipline outside their major field of study and be able to apply it within the context of their major field of study. To that end, this course requires the student to complete an executive summary, two papers and a reflection.

The executive summary or precis of the first research paper should be one full page of text in length. A second page will include the references for the intended, more complete final version to follow. The submissions will be evaluated and returned to the student within a week's time to help inform the work undertaken for the research papers. In the first work you are tasked with a) evaluating the effectiveness of a (the) policy response(s) to the 2008 financial crash as adopted in the United States. In the course of this work a comparison with the effectiveness of the policy response adopted in at least one other country must be included. The second research paper requires the student b) to

consider the role that ‘collective effervescence,’ as the sociologist Emile Durkheim described it, played in the various responses to the current pandemic.

The executive summary will account for 10 percent of the final course grade, the first paper 40 percent and the concluding paper the remaining 50 percent of the final course grade. The executive summary will be due at midnight (11:59 pm) on Saturday, January 29th, 2022. The first paper will be due at midnight (11:59 pm) on the Saturday of the sixth week of class, February 12th, 2022. The second paper will be due at midnight (11:59 pm) on the last Saturday of the ten-week session, March 12th, 2022. The minimum length of each longer paper will be 6 pages of text (ten pages maximum). The penalty for late work is one letter grade per day.

The rubric to follow for the papers is based on how papers will be evaluated. Three primary criteria will be relied upon in the evaluation process: 1) the amount of quality research conducted; 2) the coherence of the argument presented; and 3) presentation. More detail will follow, but some initial comments can be made here to allow for the projects to get underway.

Quality, analytical sources should be used in developing the argument of this piece. Encyclopedias and Wikipedia are not acceptable sources. First hand, or anecdotal knowledge is not an acceptable source. Newspaper and periodicals, such as The Economist, can be used, but should not be the only sources relied upon. Academic journals, found through the EconLit or ABI Inform search engines constitute quality sources.

Secondly, the papers will be evaluated on the basis of the coherence of the argument presented. One can perform a substantial amount of research, but

without an adequate organization of that same material, the quality of the work suffers dramatically.

Finally, 'presentation' means that a standard 12 point font and style are used and the normal rules of grammar, citing of sources, etc. is followed. Recognize that spell checker is a dangerous tool in that it allows for misspelling errors to occur, as long the relevant work is still an English term. In a recent class the phrase 'the profit Mohammad' passed the spellchecker test, but clearly did not convey the intended information. One editing of the papers should consequently be undertaken to guarantee that such errors are not included. Plagiarism of any kind will lead to a failing grade.

Citations should be provided using the following style guidelines. Primary sources should be used where available, but most of the citations relied upon will likely be secondary sources.

--For citations from books use the following format:

Keynes, John Maynard. *The General Theory of Employment, Interest and Money*. London, UK: Macmillan, 1936.

-- For citations from articles use the following format:

Brunnermeier, Markus K. and Carl Pedersen. "The Financial Market Impact of Quantitative Easing." *Oxford Journal of Economics* 22, 6 (2017): 1029-1061.

-- For citations from a website, rely on sources that can be identified as being associated with a given institution or author. Use the following for this citation:

Satalkar, B. (2010, July 15). "Water aerobics." Retrieved from www.buzzle.com on June 1, 2021.

-- If a citation is required for a work beyond those listed rely on the pattern laid out in the Chicago Manual of Style.

The final reflection should be posted by midnight, Friday, March 18th, 2022. It should not exceed one page in length. It should address the question of how the two primary events considered in this course relate to one another. While the reflection will not receive a letter grade, the quality of this reflection will be used in making plus/minus and borderline grade decisions should the need arise.

Outline

I. Introduction: overview of the class

II. Manias, panics and crashes

A. The model:

Displacement;
Boom;
Euphoria;
the Peak; and
the Slide to the Abyss.

B. On financial innovation.

C. The responses

III. The pandemic

A. Introduction

B. The Economic Effects

1. Macroeconomic effects
2. Forecasting the future
3. On conspiracy theory
4. On inequality