

Financial and Monetary History of the United States
Economics 344:01
Fall 2007

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Prerequisites

Economics 203 (Intermediate Microeconomic Analysis), Economics 204 (Intermediate Macroeconomic Analysis) and Economics 322 (Econometrics)

Course Objective

This course provides a detailed overview and analysis of the evolution of the America financial and monetary policy in the United States. Through historical examples, the theoretical and empirical principles of banking, finance, and monetary policy are examined. These are the basics for a “Wall Street intellectual.”

Attendance Policy

You are strongly advised to attend every class. Attendance is highly correlated with performance on tests. Please do not arrive late to class. If you need to leave early, you must inform me and sit near the door. At the beginning of each class, we will discuss the assigned reading. You are expected to have read the article and to participate. You will be graded on class participation.

Course Requirements

1. Class Participation (10 percent)
2. Reaction Paper 1, Calomiris (1988), due September 25, (10 percent)
3. Mid-Term Exam, October 12, (20 percent)
4. Reaction Paper 2, , J.K. Galbraith (1954), due November 16 (15 percent)
5. Reaction Paper 3, , Michael Lewis (1989), due December 11 (15 percent)
6. Final Exam, December 20, 8-11 am. (30 percent)

Reaction Papers: Each paper should be 3-4 pages in length. The papers must be typed on 8 ½” by 11” paper, in type no smaller than 12 point, double-spaced, with a one-inch margin on all sides. This is a limited amount of space; hence, you will have to be succinct in your presentation. A good strategy is to focus on the one or two points in the reading that you find most interesting, important, or controversial. These papers are due

at the *beginning of class*. Do NOT quote the paper or book. Explain it in your own words.

These papers should articulate your reactions to the readings and demonstrate that you have carefully read the essay or the book. Your reaction may take a variety of forms. Here are some questions you may want to address: What is the author's objective in writing this essay? Do you find his argument credible? Are you convinced by the evidence? What assumptions does the author make? Are they reasonable? What evidence would strengthen the author's position? Are there alternative explanations of the evidence that the author does not consider? What questions remain unanswered? What questions do you believe should be addressed by future research? In your paper, you should clearly state and defend your positions. It is important to emphasize that there are no right or wrong opinions. I am not looking for a *particular* critique of the assigned reading. Instead, I want you to provide your own evaluation of the reading.

REQUIRED READING

Books: Ordered at the Rutgers Bookstore (all paperback)

Milton Friedman and Anna J. Schwartz, A Monetary History of the United States, 1867-1960 (Princeton: Princeton University Press, 1963).

John Kenneth Galbraith, The Great Crash 1929 (Boston: Houghton Mifflin, 1954, and many later editions, 1997 is good because it includes Galbraith's reflections in the crash of 1987 and the tech bubble).

Michael Lewis, Liar's Poker (Penguin Books, 1990).

Articles: These are available either on jstor.org or on the Rutgers University Libraries electronic journals lists. Some specific addresses are provided for a few publications

Farley Grubb, "Benjamin Franklin and the Birth of a Paper Money Economy" (Federal Reserve Bank of Philadelphia, 2006). Available on my website.

Bruce D. Smith, "Money and Inflation in Colonial Massachusetts," Federal Reserve Bank of Minneapolis Quarterly Review (Winter 1984), pp. 1-14.
<http://www.minneapolisfed.org/research/QR/QR811.pdf>

Donald Kemmerer, "The Colonial Loan Office System in New Jersey," Journal of Political Economy 74:6 (December 1939), pp. 867-874.

Charles A. Calomiris, "Institutional Failure Monetary Scarcity and the Depreciation of the Continental," Journal of Economic History 48:1 (March 1988), pp. 47-68.

David J. Cowen, "The First Bank of the United States and the Securities Market Crash of 1792," Journal of Economic History 60 (December 2000), pp. 1041-1060.

Anna J. Schwartz, "The Beginning of Competitive Banking in Philadelphia, 1792-1809," Journal of Political Economy 55:5 (October 1947), pp. 417-431.

Richard Sylla, "U.S. Securities Markets and the Banking System, 1790-1840," Federal Reserve Bank of St. Louis Review (May/ June 1998), Vol. 8. No 3, pp. 83-98.
<http://research.stlouisfed.org/publications/review/98/05/9805rs.pdf>

Hugh Rockoff, "Money, Prices and Banks in the Jacksonian Era," in Stanley Engerman, A Reinterpretation of American Economic History (1972), available on my webpage.

Arthur J. Rolnick and Warren E. Weber, "New Evidence on the Free Banking Era," American Economic Review 73:5 (December 1983), pp. 1080-1091.

Howard Bodenhorn, "Capital Mobility and Financial Integration in Antebellum American," Journal of Economic History 52 (September 1992), pp. 585-610.

Kenneth Garbade and William Silber, "Technology, Communication and the Performance of Financial Markets, 1840-1975," Journal of Finance 33:3 (June 1978), pp. 819-832.

Milton Friedman, "Price, Income, and Monetary Changes in Three Wartime Periods," American Economic Review (May 1952) Vol. 42, No. 2, pp. 612ff.

Michael Bordo, "The Classical Gold Standard: Some Lessons for Today", Federal Reserve Bank of St. Louis Review 63 (May 1981), pp. 2-17
http://research.stlouisfed.org/publications/review/81/05/Classical_May1981.pdf

Hugh Rockoff, "The Wizard of Oz," Journal of Political Economy 98:4 (August 1990), pp. 739-760.

Eugene N. White "The Political Economy of Banking Regulation, 1864-1933," Journal of Economic History, (March 1982).

Eugene N. White "California Banking in the Nineteenth Century: The Art and Method of the Bank of A. Levy," Business History Review 75 (Summer 2001).

J. Bradford De Long, "Did J.P. Morgan's Men Add Value?" in Peter Temin, ed., Inside the Business Enterprise (Chicago: University of Chicago Press, 1991), pp. 205-249, and [www.nber.org](http://papers.nber.org/papers/w3426.pdf): <http://papers.nber.org/papers/w3426.pdf>

Lance Davis, "The Investment Market, 1870-1914: The Evolution of a National Market," Journal of Economic History 25: 3 (September 1965). PP. 355-399.

Eugene N. White, "The Stock Market Boom and Crash of 1929 Revisited," Journal of Economic Perspectives (Spring 1990), pp. 76-83.

Christina D. Romer, "The Nation in Depression," Journal of Economic Perspectives 7: 2 (Spring 1993), pp. 19-39.

James D. Hamilton, "Monetary Factors in the Great Depression," Journal of Monetary Economics 19 (1987), p. 145-169.

David Wheelock, "Monetary Policy in the Great Depression: What the Fed Did and Why" Federal Reserve bank of St. Louis Review March/April 1992), pp. 3-28.
http://research.stlouisfed.org/publications/review/92/03/Depression_Mar_Apr1992.pdf

J. Bradford De Long, "America's Peacetime Inflation: 1970s," in Christina Romer and David Romer, Reducing Inflation: Motivation and Strategy (Chicago: University of Chicago Press, 1997), pp. 247-276----but available on the NBER website, [www.nber.org: http://papers.nber.org/papers/h0084.pdf](http://papers.nber.org/papers/h0084.pdf)

Edward J. Kane, "De Jure Interstate Banking: Why Only Now?" Journal of Money Credit and Banking 28:2 (May 1996), pp. 141-161.

Eugene N. White, "Bubbles and Busts: The 1990s in the Mirror of the 1920s," in Paul Rhode and Gianni Toniolo, The Global Economy in the 1990s: A Long-run Perspective (Cambridge: Cambridge University Press, 2006), pp. 193-217. or NBER [www.nber.org: http://papers.nber.org/papers/w12138.pdf](http://papers.nber.org/papers/w12138.pdf)

Preliminary Class Schedule

September 4: 1. Issues and Lessons of Monetary and Financial History

September 7: 2. The Colonial Legacy
Reading: Grubb (2006)

September 11: 3. Crisis of the Colonial Regime and the Seven Years War
Reading: Smith (1984)

September 14: 4. Financing the War for Independence
Reading: Kemmerer (1939)

September 18: 5. Consequences of the War for Independence
Reading: Calomiris (1988)

September 21: 6. Hamilton and the New Constitution
Reading: Cohen (1998)

September 25: 7. The Early National Period & Government Finance
Reaction Paper 1 Due

September 28: 8. Hamiltonian Finance and the War of 1812
Reading: Schwartz (1947)

October 2: 9. Early Banks and Financial Markets
Reading Sylla (1998),

October 5: 10. The Bank War and the Panic of 1837
Reading: Rockoff (1972)

- October 9: 11. The Free Banking Era
Reading: Rolnick and Weber (1983)
- October 12: **Midterm Exam**
- October 16: 12. The Growth of Financial Markets and Financial Integration
Reading: Bodenhorn (1992), Garbade and Silber (1978)
- October 19: 13. The Civil War and its Consequences
Reading: Friedman (1952) and Bordo (1981).
- October 23: 14. Resumption and the Politics of Silver and Gold
Reading: Rockoff (1990) Friedman and Schwartz, (1963) Ch. 2, pp. 15-32, 44-58, 85-88, Ch. 3, pp. 89-97; 104-122: Rockoff (1990).
- October 26: 15. National Banking System: Structure, Conduct & Performance
Reading: White (1982)
- October 30: 16. Integration of Financial Markets and Efficiency of the Banking System
Reading: White (2001), De Long (1991)
- November 2: 17. What Commercial and Investment Banks Did
Reading: Davis (1965)
- November 6: 18. Financial Crisis and the Macroeconomy
Reading: Friedman and Schwartz (1963), Chs. 4, pp. 135-138, 152-174, 183-188.
- November 9: 19. Founding of the Federal Reserve and World War I
Reading: Ch. 5, pp. 189-207
- November 13: 20. The Great Boom and Crash of 1929
Reading: White (1990); Galbraith (1954)
Friedman and Schwartz (1963), Ch. 6, pp. 240-270, 296-8.
- November 16: 21. The Great Depression, 1929-1933
Friedman and Schwartz (1963), Ch. 7 all; Romer (1993); Hamilton (1987)
Reaction Paper 2: Galbraith due
- November 20: 22. The Great Depression, 1933-1941
Reading: Friedman and Schwartz, Ch. 8, pp. 420-434, Ch. 9, pp. 493-506, 543-545; Wheelock (1992)
- November 22: No Class, Thanksgiving.
- November 27: 23. Financing the Second World War & the Korean War
Reading: Friedman and Schwartz, Ch. 10, pp. 546-574;
- November 30: 24. New Deal Banking and Finance
Reading: Friedman and Schwartz (1963), Ch. 8, pp. 434-462; Kane (1996)
- December 4: 25. The Collapse of New Deal Banking and Finance
Reading: Lewis (1989), Chs. 1-7, 10-11. & Epilogue
- December 7: 26. Monetary Policy 1945-1973
Reading: De Long (1997);
- December 11: 27. Monetary Policy 1973-2007
Reading: White (2006) **Reaction Paper 3: Lewis due**
- December 20: **FINAL EXAM, 8-11 am**

"A Monetary History of the US, 1867-1960" is a revolutionary, albeit flawed, canon in economic literature. [Read more.](#) 33 people found this helpful.Â Still one of the great required economics texts. Required reading for all politicians and other "policy makers" - fat chance! [Read more.](#)Â I've had the book for about 2 weeks and 4 pages have already fallen out. Super annoying. [Read more.](#)