Problem Set 1

14.71

Due October 8, 2009

1. Theory

   a) Can there be a foreign exchange crisis with a flexible exchange rate? Explain.

   b) How can there be a financial crisis with no uncertainty and perfect foresight?

   c) What is the analog of a fixed exchange rate for banks?

   d) Do rational investors prevent bubbles? Why or why not?

   e) How do bubbles turn into crises?

2. History

   a) What conditions lead to a banking crisis?

   b) What are some consequences of a banking crisis?

   c) Do industrial countries have fewer banking crises than developing ones?

   d) What determines whether prices decline or production (GDP) falls after a banking crisis?

   e) When did financial crises start?

3. The Great Depression

   a) How did World War One contribute to the Great Depression?

   b) What policies of the 1920s made the Great Depression more likely?

   c) Why were there currency crises in 1931?

   d) What was the Fed's "great mistake"?

   e) Why did industrial unemployment stay high in industrial economies during the 1930s?

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14.71 Economic History of Financial Crises
Fall 2009

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