

## 14.09: Financial Crises

IAP 2016  
Units: 4-0-2 [P/D/F]  
Location: E51-057 (tentative)  
8 Lectures in January 2016  
From 10:30am-12pm on the following days:  
1/19, 1/20, 1/21, 1/22, 1/25, 1/26, 1/27, 1/28

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### Course Overview and Objectives

This mini-course is an introduction to economic theories of financial crises. We will focus on amplification mechanisms that exacerbate crises, such as leverage, fire sales, bank runs, liquidity shortages, information frictions, cross-exposures and complexity. We will also discuss phenomena that trigger crises, such as asset price bubbles, as well as the different perspectives on the origins of crises, such as mistaken beliefs and moral hazard. Throughout, we will draw upon examples from financial crises around the world, especially the recent subprime crisis in the US. Our objective is to gain a deeper understanding of these events by using economic theory as well as empirical evidence.

The course will meet for 8 lectures in the last 2 weeks of IAP every weekday from January 19, 2016 (Tuesday) until January 28, 2016 (Thursday). The lectures will take place in E51-057 (tentative) between 10:30am-12pm.

**Course website:** <http://stellar.mit.edu/S/course/14/ia16/14.09/>

**Prerequisites:** Calculus (18.01) and introductory macroeconomics (14.02). Please check with me if you do not meet all of the prerequisites but if you are still interested in taking the course.

### Requirements and Grading

The course will be graded on a pass/fail scale. Class participation will account for 30% of the grade. A take-home exam will account for the remaining 70%. The exam will be distributed at the end of the last lecture (on January 28) and it will be due in 24 hours (on January 29).

### Textbook and Readings

There is no required textbook. We will mainly rely on lecture notes that will be distributed via the course website.

**Course Plan (Tentative)**

<b>January 19 (Tu)</b>	<b>Financial Crises around the World</b>
<b>January 20 (Wed)</b>	<b>Leverage and the Net Worth Channel</b>
<b>January 21 (Thu)</b>	<b>Asset Price Bubbles</b>
<b>January 22 (Fri)</b>	<b>Fire Sales and the Asset Price Feedback</b>
<b>January 25 (Mon)</b>	<b>Liquidity and Bank Runs</b>
<b>January 26 (Tu)</b>	<b>Liquidity, Debt, and Securitization</b>
<b>January 27 (Wed)</b>	<b>Cross-exposures, Complexity, and Panics</b>
<b>January 28 (Thu)</b>	<b>How to Prevent or Mitigate Financial Crises?</b>
<b>January 28 (Thu)</b>	<b>Take Home Exam, due on Friday, January 29</b>