

HISTORICAL ANALYSIS OF FINANCE AND FINANCIAL CRISES

24-hour course

Kim Oosterlinck

Kim Oosterlinck is Professor of Finance at the Solvay Brussels School of Economics and Management. He is an expert in economic and financial history and has published extensively, especially on the evolution of sovereign bond prices during major crises (revolutions, wars, repudiations, country break-up) and on war finance. He also works on issues related to the art market and economics of arts and culture in general.

Course Outline

This course is intended to provide Participants with the insights one can gain from financial history. The aim of the course is to show what history can bring to finance, notably by analyzing long term relationships. In this respect it will deal, among others, with the Equity Premium on the long term, or with the long term implications of sovereign debt defaults etc... The course will also analyze events which do not occur frequently and for which history can bring meaningful insights (speculative bubbles, wars, secessions or repudiations...)

The course focuses on financial markets and credit, and in particular sovereign debt. This course is particularly relevant in the framework of the recent financial crisis. The crisis has indeed shown that in troubled times the mainstream approaches may prove too limited. A good knowledge of history should allow practitioners to assess the risk in a deeper way and with a larger time horizon than usually encountered.

At the end of the course, Participants will be able to:

- Understand better long term relationships in equity markets
- Apprehend past episodes in finance and their impact on today's world
- Understand in depth sovereign debt defaults and markets reactions during extreme events, such as bubbles, wars, country break-ups and secessions.

Course Structure

- I. Introduction**
- II. Sovereign Debts**
 - a. Sovereign defaults
 - b. Role of institution and politics
 - c. State succession
- III. Wars**
 - a. Investment in war times
 - b. War finance
- IV. Equity - Long term Perspective**
 - a. Long term returns
 - b. Equity risk premium
 - c. Surviving markets
 - d. Global stock markets
- V. Equity - Market Anomalies and Globalisation**
 - a. Anomalies
 - i. Efficient market hypothesis and market efficiencies
 - ii. Momentum and mean reversion
 - iii. Anomaly and predictability
 - iv. Small vs large caps
 - v. Longer look at dividend yield
 - vi. Ratios (book to market ratio, price earning ratio)
 - b. Globalisation
 - i. Context
 - ii. Long term global market correlations
- VI. Early Bubbles**
 - a. Tulip mania
 - b. South Sea bubble
 - c. Royal African cy
 - d. Louis XIV/John Law
 - e. Mississippi bubble
- VII. 1929 Bubble**
 - a. 1929
 - b. General boom
 - c. Easy credit
 - d. Brokers' loans/More informed traders
 - e. Other bubbles
 - i. Railway mania
 - ii. 1987 crash
 - iii. dot.com bubble
 - f. Bubble general features
- VIII. Great Depression**
 - a. Great depression description
 - b. Great depression and credit
 - c. Interwar gold standard and monetary turmoil
 - d. Policy response
 - e. Banking crisis
 - f. Fed action

- g. Glass Steagall Act and FDIC
- h. Great depression vs Great recession