

# FOUR CENTURIES OF FINANCE

SWEDISH HOUSE OF FINANCE

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## COURSE DESCRIPTION

Finance has been around for centuries. Studying its fascinating history is not only interesting in its own right, it can also provide unique opportunities to (a) analyze different settings that are closer to the simplified settings of our theoretical models than today's situation, (b) take a long term perspective on important questions, and (c) benefit from natural experiments that allow for causal inference. This mini-PhD course features all these three elements. We will discuss papers at the research frontier. Starting point is economic theory and we will discuss how historical research can provide fundamental insights into the underlying models that underpin financial-economic thinking today.

## TEXTBOOK AND SUPPLEMENTARY READINGS

We will principally rely on the original academic papers that are easy to obtain through Google scholar, etc.

## CLASS PRESENTATIONS

Each student is expected to present at least one paper in class. Presentations should focus on the papers' main point and argument. Students will have to explain the story of the paper in their own words and critically assess the storyline, identification strategy, and contribution of the paper. Please plan to present for approximately 20 minutes. We will plan for 10 additional minutes of questions and clarifications during the presentation (seminar style).

## FINAL PROJECT

The course will **not** feature a final exam. Instead, students are expected to write a research proposal. This assignment is meant to help students develop their own research interests, but projects should be related to the topics in class, or to financial history more broadly. The research proposal should describe an empirical project embedded in economic theory. The proposal should focus on the underlying conceptual framework, the development of testable hypotheses, the

research design, and the available data. The proposal does not have to feature any empirical results, although some data work as a proof of concept is advisable.

The proposal should be limited to 3 pages (exclusive of tables/figure).

Deadline: July 4

### **GRADING**

The final grade will be determined by a mixture of 33% final project, 33% class participation, and 33% class presentation.

# Reading list

(papers marked by '\*' are *required* reading)

## Session 1a

### Introduction; Asset prices in the long run

- 1) Campbell, John Y. Financial decisions and markets: a course in asset pricing. Princeton University Press, 2017, Chapter 5.3 and 5.4
- 2) \*Golez, Benjamin, and Peter Koudijs. "Four centuries of return predictability." Journal of Financial Economics 127, no. 2 (2018): 248-263. Golez, Benjamin, and Peter Koudijs. "Equity duration and predictability." Available at SSRN 3519246 (2020).\*
- 3) Golez, Benjamin, and Peter Koudijs. "Equity duration and predictability." Available at SSRN 3519246 (2020).

### Student presentation

- 1) Baltussen, Guido, Bart van Vliet, and Pim Van Vliet. "The Cross-Section of Stock Returns before 1926 (and beyond)." Available at SSRN 3969743 (2022).

## Session 1b

### Information in markets

- 1) Back, Kerry. Asset pricing and portfolio choice theory. Oxford University Press, 2010, Chapter 18
- 2) Campbell, John Y. Financial decisions and markets: a course in asset pricing. Princeton University Press, 2017, Chapter 12.1 and 12.2
- 3) Koudijs, Peter (2016). "The boats that did not sail: Asset price volatility in a natural experiment." The Journal of Finance 71, no. 3: 1185-1226.
- 4) \*Koudijs, Peter (2015), "Those who know most: Insider Trading in 18th c. Amsterdam", Journal of Political Economy 123-6, pp. 1356 – 1409\*

### Student presentations

- 1) Steinwender, Claudia (2017). "The Real Effects of Information Frictions:" When the States and the Kingdom became United". American Economic Review.

## Session 2a

### Limited liability and firms

- 1) Hart, Oliver. "Economist's Perspective on the Theory of the Firm, An." Colum. L. Rev. 89 (1989): 1757.
- 2) Guinnane, Timothy, Ron Harris, Naomi R. Lamoreaux, and Jean-Laurent Rosenthal. "Putting the Corporation in its Place." Enterprise & Society 8, no. 3 (2007): 687-729.
- 3) Winton, Andrew. "Limitation of Liability and the Ownership Structure of the Firm." The Journal of Finance 48, no. 2 (1993): 487-512.
- 4) \*Acheson, Graeme G., Charles R. Hickson, and John D. Turner. "Does limited liability matter? Evidence from nineteenth-century British banking." Review of Law & Economics 6, no. 2 (2010): 247-273.\*

### **Student presentation**

- 1) Koudijs, Peter, and Laura Salisbury. "Limited liability and investment: Evidence from changes in marital property laws in the US South, 1840–1850." *Journal of Financial Economics* (2020).

### **Session 2b**

#### **Limited liability and banks**

- 1) \*Koudijs, Peter, Laura Salisbury, and Gurpal Sran. "For Richer, for Poorer: Bankers' Liability and Risk-taking in New England, 1867-1880." *Journal of Finance* (2021)\*

### **Student presentation**

- 1) Aldunate, Felipe, Dirk Jenter, Arthur G. Korteweg, and Peter Koudijs. "Shareholder Liability and Bank Failure." Available at SSRN (2019)

### **Session 3a**

#### **Beliefs**

- 1) Miller, Edward M. (1977), "Risk, uncertainty, and Divergence of Opinion", *Journal of Finance* 32(4): 1151-1168
- 2) Back, Kerry. *Asset pricing and portfolio choice theory*. Oxford University Press, 2010, Chapter 18
- 3) Campbell, John Y. *Financial decisions and markets: a course in asset pricing*. Princeton University Press, 2017, Chapter 11.4
- 4) \*Geanakoplos, J. (2010): "The Leverage Cycle", Acemoglu D., K. Rogoff, and M. Woodford, eds., *NBER Macroeconomics Annual*: 1-65, (\* up to p. 31)
- 5) Malmendier, Ulrike, and Stefan Nagel. "Depression babies: do macroeconomic experiences affect risk taking?." *The Quarterly Journal of Economics* 126, no. 1 (2011): 373-416.

### **Student presentation**

- 1) Koudijs, Peter and Hans-Joachim Voth (2016), "Leverage and Beliefs: Personal Experience and Risk Taking in Margin Lending", *American Economic Review* 106-11, pp. 3367 – 3400

### **Section 3b**

#### **Financial crises**

- 1) \*Frydman, Carola, Eric Hilt, and Lily Y. Zhou. "Economic effects of runs on early "shadow banks": Trust companies and the impact of the panic of 1907." *Journal of Political Economy* 123, no. 4 (2015): 902-940.\*
- 2) Xu, Chenzi. "Reshaping Global Trade: The Immediate and Long-Run Effects of Bank Failures." (2022).

### **Student presentation**

- 1) Babina, Tania, Asaf Bernstein, and Filippo Mezzanotti. "Crisis Innovation: Evidence from the Great Depression." (2021).

### **Session 4a**

#### **Finance and Politics**

- 1) \*Doerr, S., Gissler, S., Peydró, J.L. and Voth, H.J., 2018. From finance to fascism: The real effect of Germany's 1931 banking crisis.\*
- 2) Jha, Saumitra, Peter Koudijs, and Marcos Salgado. "Markets under Siege: How Differences in Political Beliefs Can Move Financial Markets." (2022).
- 3) Huber, Kilian, Volker Lindenthal, and Fabian Waldinger. "Discrimination, managers and firm performance: evidence from" Aryanizations" in Nazi Germany." (2019).

### **Student presentation**

- 1) Koudijs, Peter, and Hans-Joachim Voth. "Individual skill and market liquidity: Evidence from the removal of Jewish market makers in WWII" (2020)

## **Session 4b**

### **Finance and Slavery**

- 1) Kilbourne, Richard Holcombe. Debt, investment, slaves: credit relations in East Feliciana Parish, Louisiana, 1825-1885. University of Alabama Press, 2014.
- 2) Martin, Bonnie. "Slavery's invisible engine: mortgaging human property." *The journal of southern history* 76, no. 4 (2010): 817-866.
- 3) González, Felipe, Guillermo Marshall, and Suresh Naidu. "Start-up nation? Slave wealth and entrepreneurship in Civil War Maryland." *The Journal of Economic History* 77, no. 2 (2017): 373-405.
- 4) Wright, Gavin. "Slavery and Anglo-American capitalism revisited." *The Economic History Review* 73, no. 2 (2020): 353-383.
- 5) De Jong, Abe, Tim Kooijmans, and Peter Koudijs, "Plantation Mortgage-Backed Securities: Evidence from Surinam in the 18th Century." *The Journal of Economic History* (forthcoming)
- 6) \*De Jong, Abe, Tim Kooijmans, and Peter Koudijs. "Going for Broke: Underwriter Reputation and the Performance of Mortgage-Backed Securities." (2022)\*

### **Student presentation**

- 1) Radburn, Nicholas. "Keeping "the wheel in motion": Trans-Atlantic Credit Terms, Slave Prices, and the Geography of Slavery in the British Americas, 1755–1807." *The Journal of Economic History* 75, no. 3 (2015): 660-689.