DEBT ECONOMICS

Department of Economics
University of Massachusetts Amherst
Econ 397SL: Special Topics | Spring 2021
Updated: February 1, 2021

INSTRUCTOR INFORMATION
Aaron M. Medlin, M.A. (He/Him)
Gordon Hall 110
418 N. Pleasant St.
Amherst, MA 01002-1735
Email amedlin@umass.edu
Telephone (574) 532-3075

MEETING TIMES
Monday, Wednesday 2:30 PM - 3:45 PM
Remote via Zoom

OFFICE HOURS
After class or by appointment via Zoom.

GOALS, CONTENT, AND METHODS
What is the difference between a mere obligation, a sense that one ought to behave in a certain way, or even that one owes something to someone, and a debt, properly speaking? The answer is simple: money. The difference between a debt and an obligation is that a debt can be precisely quantified. This requires money.

Not only is it money that makes debt possible: money and debt appear on the scene [historically] at exactly the same time. Some of the very first written documents that have come down to us are Mesopotamian tablets recording credits and debits, rations issued by temples, money owed for rent of temple lands, the value of each precisely specified in grain and silver. Some of the earliest works of moral philosophy, in turn, are reflections on what it means to imagine morality as debt—that is, in terms of money.

A history of debt, then, is thus necessarily a history of money—and the easiest way to understand the role that debt has played in human society is simply to follow the forms that money has taken, and the way money has been used, across the centuries—and the arguments that inevitably ensued about what all this means. (Graeber, 2011; p. 21, emphasis added)

This course will not only be about the role of debt in the economy strictly speaking. As emphasized in the passage above by the late David Graeber (1961-2020), a history of debt is necessarily a history of money. Therefore, the practical study of debt is also necessarily a study of money and how it is created and circulates in our modern economy. You will come to learn that without debt, there is no money. As the sociologist Geoffrey Ingham once remarked, “whilst all money is credit, not all credit is money” (2013, p. 128). In this course, we will explore both credit as money, how it facilitates economic activity, the sources of its creation and distribution in the economy by the state and private financial system as well as private firms, and the ways in which excess credit creation can lead to recession and potential financial crises—the Financial Crisis of 2008 being just the most recent example of a long history of debt crises going to back to before the emergence of capitalism as an economic system. I have strived to make the approach to this course interdisciplinary, drawing on literature and methodology from historians, anthropologists, and sociologists as well as economists.

To best understand debt in our modern economy, it is also important to understand how we got to the system we have. That means we will need to engage with a fair amount of economic history. In the process, we will encounter various moral and ethical questions that will emerge again and again throughout the course as we move into the more analytical and empirical approaches to debt.

The economics of this course will be informed by a combination of orthodox and heterodox economic theory, as well as empirical evidence, which will explore the impact of debt and credit at both the macro and micro level—much of literature from scholars that you have likely not heard of before mainly in the
heterodox economic traditions (e.g., Marxian, Post Keynesian). These theoretical approaches will rely heavily on balance sheet and sectoral analysis of the economy.

I will also introduce you to a more advanced modeling approach than you have likely not encountered in previous courses called dynamic systems modeling which allows us to model stocks (e.g., wealth, debt, etc.) and flows (income, expenditures, credit, etc.). Do not worry, you will not be required to build these models yourself, or do extensive calculations or complex algebra, but you will be introduced to what they are, how they work, and a couple programs (InsightMaker and Minsky) you can use to create them, and, of course, how to analyze them using simulation. This course will also introduce you to several data sources (listed in this document under the section “Data Sources on Debt and System Dynamics Software”) you can use to analyze debt in the economy.

Taking a sectoral approach to debt in the economy, we will examine how debt accumulates and when it can become a problem for: (1) the government sector by developing an understanding of currency issuers vs users, the role of taxes and bonds, and issues of debt sustainability; (2) household consumer debt, including mortgages, and its macroeconomic effects, with special focus on understanding the 2008 Financial Crisis and Great Recession, as well as Student loans and their impact on students, families, and the macroeconomy; and (3) corporate debt and its implications for financial stability and employment. Where relevant, we will also examine the role of debt and credit in the current coronavirus pandemic and economic crisis.

The course will be structured into the following five modules:

Module 1: The Origin and History of Debt, Credit and Money
Module 2: Theoretical Perspectives of Modern Money, Credit, and Crises
Module 3: Macroeconomic Analysis of Debt
Module 4: The Government Sector
Module 5: The Private Sector: Households
Module 6: The Private Sector: Non-Financial Businesses

For each module, we will have various short written assignments. These will include different formats such as a personal reflection essays on the readings and videos/films assigned. During the analytical unit of the course, module 3, you will be required to analyze actual data and simple computational models. We will cap the course with term papers for which you will be able to work in groups if desired (more on this in the next section). There will be no exams in this course.

References

Expectations, Assignments and Grading

Participation Preparation, attendance, and participation are required. Preparation and participation may be occasionally assessed by in-class questions or writing assignments that will require reading the material in advance. Participation also includes attendance and engagement in lecture. While the lectures via Zoom will be recorded, if you miss a class or lecture, for any reason, it is your responsibility to reach out to me for access to a recording as it will not be posted in Google Classroom.

Assignments Homework assignments will consist mostly of writing reflections about the readings (e.g., what stuck out to you, and questions you have about the material). I will occasionally ask you to answer specific questions about theme or subject matter of the readings. And you will write two response papers to films I will assign. We will have a couple quantitative assignments involving the construction of data and analysis of that data. Finally, you have at least one assignment working with a computational stock-flow consistent model in which you manipulate parameters and initial conditions to produce various outcomes.
**Term Paper** A term paper will be due at the end of the course on May 12. You will pick out one country to study—other than the United States—for an empirical analysis of debt in using the sectoral approach and data sources that will be introduced in Module 3. Students are encouraged to work together in groups with no more than three students to a group. Groups of two are preferred, but we have an uneven number of students in the course. Each student/group should select a different country than everyone else so no two people or groups are researching the same country. The paper should be about three to five pages in length including graphs and tables. My aesthetic preference for these papers is Times New Roman font, font size 11, and single space. Reference and citation style should be American Psychological Association or APA (Click here for examples).

**Term Paper Presentation** Each student/group will present their research findings so far on the country they have chosen during one of the last two class sessions at the end of the term. The amount of time allotted for each presentation will depend on the number of groups we have.

**Grading** You will earn a grade based on your participation, writing assignments, presentations, and term paper. The breakdown of the weighting of each of these components will be as follows:

<table>
<thead>
<tr>
<th>Grade component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation &amp; attendance</td>
<td>20 %</td>
</tr>
<tr>
<td>Assignments</td>
<td>40 %</td>
</tr>
<tr>
<td>Term Paper Presentation</td>
<td>10 %</td>
</tr>
<tr>
<td>Term Paper</td>
<td>30 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Grades will be assigned according to the following schedule with no rounding. Please note that your grade depends on a fixed standard of comprehension and expression and not on comparisons to other students.

<table>
<thead>
<tr>
<th>Cut-offs</th>
<th>93</th>
<th>90</th>
<th>87</th>
<th>83</th>
<th>80</th>
<th>77</th>
<th>73</th>
<th>70</th>
<th>60</th>
<th>-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade</td>
<td>A</td>
<td>A-</td>
<td>B+</td>
<td>B</td>
<td>B-</td>
<td>C+</td>
<td>C</td>
<td>C-</td>
<td>D</td>
<td>F</td>
</tr>
</tbody>
</table>

**Late Assignments** Late assignments and term paper will not be accepted without a University sanctioned excused absence (see [https://www.umass.edu/registrar/students/policies-and-practices/class-absence-policy](https://www.umass.edu/registrar/students/policies-and-practices/class-absence-policy)) or an extension granted by me. To obtain an extension on any assignment, you must contact me BEFORE the assignment due date.

**Academic Honesty**

The integrity of the academic enterprise of any institution of higher education requires honesty in scholarship and research. Academic honesty is required of all students at the University of Massachusetts Amherst. Academic dishonesty is prohibited in all programs of the University (see [https://www.umass.edu/honesty](https://www.umass.edu/honesty)). Academic dishonesty includes but is not limited to: cheating, fabrication, plagiarism, and facilitating dishonesty. Appropriate sanctions may be imposed on any student who has committed an act of academic dishonesty. As the instructor, I will take reasonable steps to address academic misconduct. Any person who has reason to believe that a student has committed academic dishonesty should bring such information to my attention as soon as possible. Students are expected to be familiar with this policy and the commonly accepted standards of academic integrity. *Ignorance of such standards is not normally sufficient evidence of lack of intent.* The University’s policy on academic honesty will be rigorously enforced, and acts of cheating, plagiarism, or other forms of academic dishonesty may result in a failing grade for the entire course.
ACCOMMODATION POLICY

The University of Massachusetts Amherst is committed to providing an equal educational opportunity for all students. If you have a documented physical, psychological, or learning disability on file with Disability Services (DS), Learning Disabilities Support Services (LDSS), or Psychological Disabilities Services (PDS), you may be eligible for reasonable academic accommodations to help you succeed in this course. If you have a documented disability that requires an accommodation, please notify me within the first two weeks of the semester so that we may make appropriate arrangements. For more information, see here: https://www.umass.edu/disability.

WELCOMING AND RESPECTFUL CLASSROOM

As the instructor of this course, I am committed to providing a welcoming, inclusive, respectful, and safe classroom for all participants—virtual or otherwise. Our classroom will promote respect and sensitivity concerning differences of class, religion, politics, parity, sexual orientation, gender, gender variation, or nationality and people affected by racism. Please make a commitment to respect, courtesy, and sensitivity and to work through any problems if they arise. Feel free to let your classmates and me know your preferred mode of address (name, pronoun, etc.).

Economics is an intense subject that may involve political and ethical disagreement. The course will emphasize scholarly disagreement and the significant consequences of alternative choices. All views, however, will be respected, even in disagreement. The expectation and the rule are that we will engage in respectful, civil dialog throughout. If you have any questions or concerns, I urge you to contact me.

COMMUNICATION AND COURSE WEBSITE

We will not be using Moodle for this course. Instead, we will be using Google Classroom for communication and course resources including reading material. To join the Google virtual classroom, use this invitation link: https://classroom.google.com/c/MjMzNjE1MDc3NzE4?cjc=5bkdzlp. Or, for instructions on how to join through your Google account, click here. Use class code: 272b7yb. Note that you must use your UMass Gmail account in order to enroll. If you attempt to use your personal Gmail account, it will not allow it. For class lectures, we will use Zoom. Used the following to Zoom for lecture on both Mondays and Tuesdays: https://umass-amherst.zoom.us/j/97827862806 or use Meeting ID 978 2786 2806 when using the Zoom phone or desktop app.

REQUIRED TEXTS

Electronic excerpts of the required readings will be provided via Google Classroom, so you will not need to purchase any of the following books in order to complete the course.

Note: * indicates the book is available as an audiobook on Audible or elsewhere. I find audiobooks a useful way to multitask.

Debt: The First 5,000 Years by David Graeber*
   (free PDF of book is available here)
Debtor Nation: The History of America in Red Ink by Louis Hyman
   (free PDF of each chapter available here with your University login on JSTOR)
Macroeconomics by William Mitchell, L. Randall Wray, and Marin Watts
Can We Avoid Another Financial Crisis? by Steve Keen
A Brief History of Doom by Richard Vague*
The Great Debt Transformation by Gregory W. Fuller
House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again by Atif Mian and Amir Sufi*
Indebted: How Families Make College Work at Any Cost by Caitlin Zaloom*

Scans and soft copies of additional articles and book chapters will be provided via Google Classroom.
DATA SOURCES ON DEBT AND SYSTEM DYNAMICS SOFTWARE

**Macro data**
- FRED Economic Data: [https://fred.stlouisfed.org](https://fred.stlouisfed.org)
- OECD Data: [https://data.oecd.org](https://data.oecd.org)
- OECD Stat: [https://stats.oecd.org](https://stats.oecd.org)
- Macrofinance & Macrohistory Lab, Jorda-Schularick-Taylor Macrohistory Database: [http://www.macrohistory.net/data](http://www.macrohistory.net/data)
- *A Brief History of Doom* by Richard Vague website, historical data from the book: [https://bankingcrisis.org](https://bankingcrisis.org)

**Micro data**
- Federal Reserve Bank of New York, Center for Microeconomic Data: [https://www.newyorkfed.org/microeconomics](https://www.newyorkfed.org/microeconomics)

**Systems Dynamics Software**
- Minsky: [https://sourceforge.net/projects/minsky](https://sourceforge.net/projects/minsky)
- InsightMaker: [https://insightmaker.com](https://insightmaker.com)
- For a list of other software available, see this Wikipedia page: [https://en.wikipedia.org/wiki/Comparison_of_system_dynamics_software](https://en.wikipedia.org/wiki/Comparison_of_system_dynamics_software)

COURSE OUTLINE

Module 1: The Origin and History of Debt, Credit and Money
- 1.1 Alternative stories of the origin of money
- 1.2 Evolution of consumer credit during the 20th century

Module 2: Theoretical Perspectives of Modern Money, Credit and Crises
- 2.1 Chartalist and credit theories of money
- 2.2 Schools of economic thought
- 2.3 Theories of capitalism and crisis

Module 3: Macroeconomic Analysis of Debt
- 3.1 Sectoral balances approach
- 3.2 Data sources of debt
- 3.3 Dynamic systems modeling with stocks and flows
- 3.4 Predicting debt crises

Module 4: The Government Sector
- 4.1 Basics of fiscal and monetary institutions and policy
- 4.2 Fiscal sustainability
- 4.3 Government debt and economic growth debate

Module 5: The Private Sector: Households
- 5.1 The Great Depression vs the Great Recession: The same underlying crisis?
- 5.2 The macroeconomic effects of household debt burdens
- 5.3 The global debt transformation: causes and consequences
- 5.4 Student debt, racial inequality, and the pandemic
- 5.5 Policy solutions and reform

Module 6: The Private Sector: Non-Financial Firms
- 6.1 Private equity shenanigans
- 6.2 The rise of ‘zombie’ companies, and the pandemic
COURSE CALENDAR

WEEK 1: FEBRUARY 1-4

For Monday: Review of course syllabus and brief introductions

Module 1: The Origin and History of Debt, Credit and Money

For Wednesday: 1.1 Alternative stories of the origin of money

Required reading:
- Graeber, Debt, Chapter 6 “Games of Sex and Death” pp. 127-135 (8 pages) (Audiobook of chapter https://youtu.be/tBcTngvWB_E)

Reading questions:
1. Why might the myth of barter be central to the ideology of (neo)classical economics?
2. Why is Graeber equally dismissive of primordial debt theory? What erroneous logic does he point out at play here?
3. According to credit and state theories of money, as proposed by A. Mitchell Innes, what is money fundamentally?

Recommended (further) reading:
- Graeber, Debt, Chapters 8-12

WEEK 2: FEBRUARY 8-10

Note: February 12th is the last day to drop the course with no record.

Monday: 1.2 Evolution of consumer credit during the 20th century

Required reading:
- Hyman, Debtor Nation, Chapter 1 “Making Credit Modern” pp. 11-44 (33 pages)
- Hyman, Debtor Nation, Chapter 2 “Debt and Recovery” pp. 45-72 (27 pages)

Recommended listening:

Wednesday: Postwar consumer credit, and the racial wealth gap.

Required readings:
- Hyman, Debtor Nation, Chapter 5 “Postwar Consumer Credit” pp. 132-145 (13 pages)

Recommended listening:

WEEK 3: FEBRUARY 15-17
Note: Although the 15th is Presidents’ Day, we will still have class.

Module 2: Theoretical Perspectives of Modern Money, Credit and Crises

Monday: 2.1 Chartalist and credit theories of money

Required reading:
*Mitchell, Wray, and Watts, Macroeconomics, Chapter 10 “Money and Banking” pp. 147-161 (14 pages)


Wednesday: Overview of the evolution of the banking system, a ‘money view’ how credit expands and contracts, and the ‘quantity theory of disaggregated credit.’

Required reading:

Recommended reading:

https://www.newyorkfed.org/research/erp/02v08n1/0205benn/0205benn.html


Wray, L. Randall. “Seigniorage or Sovereignty?”  
http://k.web.umkc.edu/keltons/Papers/501/Seigniorage%20or%20Sovereignty.pdf


Recommended listening:  


**WEEK 4: FEBRUARY 22-24**

*Note*: “Wellbeing Wednesday” Observed, no class on the 24th.

**Monday**: 2.2 Schools of economic thought and 2.3 Theories of capitalism and crisis

*Required reading:*  


*Recommended listening:*  

*Recommended reading:*  


ECON 397SL: DEBT ECONOMICS | 8
**WEEK 5: MARCH 1-3**

*Note*: Monday the 1st we follow a Wednesday schedule. This does not affect us, but keep in mind for your other classes.

**Module 3: Macroeconomic Analysis of Debt**

**Monday**: 3.1 Sectoral balances approach

*Required reading:*

**Wednesday**: 3.2 Data sources of debt and 3.3 Dynamic systems modeling with stocks and flows

*Required reading:*

*Recommended reading:*

**WEEK 6: MARCH 8-10**

**Monday**: 3.4 Predicting debt crises

*Required reading:*
- Keen, *Can we avoid another financial crisis?* Chapter 1 “From Triumph to Crisis in Economics” pp. 1-24 (24 pages)
- Keen, *Can we avoid another financial crisis?* Chapter 2 “Microeconomics, Macroeconomics and Complexity” pp. 25-48 (23 pages)
- Keen, *Can we avoid another financial crisis?* Chapter 3 “The Lull and the Storm” pp. 49-73 (24 pages)
- Keen, *Can we avoid another financial crisis?* Chapter 4 “The Smoking Gun of Credit” pp. 74-103 (29 pages)

**Wednesday**: Econometric analysis of debt and crises.

*Required reading:*

**WEEK 7: MARCH 15-17**

**Module 4: The Government Sector**

**Monday**: 4.1 Basics of fiscal and monetary institutions and policy and 4.2 Fiscal sustainability

**Required reading:**

**Wednesday**: 4.3 Government debt and economic growth debate

**Required reading:**

**Watch video:**

**Recommended reading:**
WEEK 8: MARCH 22-24

Module 5: The Private Sector: Households

**Monday:** 5.1 The Great Depression vs the Great Recession: the same crisis

*Required reading:*

*Required watching:*
- *The Big Short* (2015)

**Wednesday:** Where did the money come from?

*Required reading:*


WEEK 9: MARCH 29-31

*Note:* March 29th is last day to drop the course with ‘W’ or to select ‘Pass/Fail’ on Spire.

**Monday:** 5.2 The macroeconomic effects of household debt burdens

*Required reading:*
- Mian and Sufi, *House of Debt*, Chapter 3 “Cutting Back” pp. 31-45 (14 pages)

**Wednesday:** Private debt and inequality.

*Required reading:*
WEEK 10: APRIL 5-7

Monday: 5.3 The global debt transformation: causes and consequences

Required readings:


Wednesday: 5.5 Policy solutions and reform

Required readings:


Recommended listening:


WEEK 11: APRIL 12-14

Note: “Wellbeing Wednesday” will be observed on 14th, no class.

Monday: 5.4 Student debt, racial inequality, and the pandemic

Required reading:

- Zaloom, *Indebted*, Chapter 4 “Enmeshed Autonomy” pp. 95-121 (26 pages)

Recommended listening:

WEEK 12: APRIL 19-20
Note: Although the 19th is Patriot’s Day, we will still have class. Tuesday the 20th, we will follow a Wednesday schedule. So, we will have class Monday, and Tuesday (to make up for no class on the 14th), and Wednesday.

Monday: The student debt burden, and racial inequality.

Watch film: Ivory Tower (2014)

Required listening:

Watch video (or read the article):


Recommended reading:
https://www.demographic-research.org/volumes/vol30/69/30-69.pdf

https://www.journals.uchicago.edu/doi/pdf/10.1086/704609


https://tcf.org/content/report/bridging-progressive-policy-debates-student-debt-racial-wealth-gap-reinforce/?agreed=1

Tuesday: Proposals and solutions to address student debt.

Required reading:
https://www.nber.org/digest/jul19/cancellation-student-loans-led-general-deleveraging


https://finance-commerce.com/2019/06/heres-the-argument-for-erasing-student-debt


**Recommended reading:**


**Wednesday:** Free day cushion.

**WEEK 13: APRIL 26-28**

**Module 6: The Private Sector: Non-Financial Businesses**

**Monday:** 6.1 The rise of ‘zombie’ companies, and the pandemic

**Required reading:**


Recommended reading:

Wednesday: 6.2 Private equity shenanigans

Required reading:
Stewart, Emily (6 Jan. 2020). “What is private equity, and why is it killing everything you love?” Vox. https://www.vox.com/the-goods/2020/1/6/21024740/private-equity-taylor-swift-toys-r-us-elizabeth-warren [In place of this reading, you can listen to the recommended podcast below which provides the same information.]

Recommended listening:

Week 14: May 3
Note: Last day of classes May 4

Monday: Free day cushion.

Week 15: May 8-12
Note: Final exams week. Since we have no final exam, work on your term papers. Remember the due date is May 12 at 11:59 PM EST. Final grades will be posted no later than May 17.

Copyright © 2021 by Aaron M. Medlin. All rights reserved. Subject to change, as necessary.