Historical studies of financial capitalism from the nineteenth century onwards are most often concerned with moments of spectacular boom and bust from whence moral lessons are drawn for contemporary audiences. Charles Mackay's classic, Extraordinary Popular Delusions and the Madness of Crowds, has left generations of readers convinced of the irrational greed behind Tulip Mania, the South Sea Bubble, and the Mississippi Scheme. This course takes these three early modern “bubbles” as case studies in market failure. In the first part of the course, we will investigate what, if any, market fundamentals drove investor behavior and will study the contemporary polemical literature which followed in the wake of each speculative disaster.

As an alternative approach, we will investigate the role of legal and regulatory regimes in increasing leverage and will explore the place of new technological and financial innovations as focal points of asset-price bubbles. By bringing new capital into markets, asset-price bubbles serve first to foster and then, by their collapse, to resolve what economists describe as the ‘‘lemons problem.’’ Those who cannot tell good wine from bad will overpay for the latter but reject the former as commanding too high a price. Yet this is also how untested ideas attract financing. In Weeks 4, 5 and 6, students will learn about the development of international capital markets and their role in financing both state and private ventures. Students will decide for themselves what both behavioral finance and closely historicized studies of market microstructure can offer historians of financial capitalism. Students will learn why modern financial and economic historians consider interpretations of asset-price bubbles pivotal to theoretical debates about rational and efficient markets. In the second half of the course, we will apply these models to three nineteenth and twentieth-century financial bubbles. Students will then develop their own research projects in which they interrogate the market realities behind a financial bubble of their choosing.

**General Reading**