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Essays on Finance in History

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Summary

This dissertation presents three essays on financial markets in various historical contexts to assess their role in international trade, private money creation, and safe assets creation, respectively. Chapter 1 shows that a temporary financial sector shock can have long-lasting consequences for the patterns of international trade. Using the most severe banking crisis in British history as a laboratory, I find that countries more exposed to the bank failures in London had significant losses in exports market share for four decades, and that the effects were most severe in countries with higher contractual frictions and limited access to alternative forms of financing. Chapter 2, joint with he Yang, studies a policy change in the United States, the National Banking Act of 1864, that improved the quality of the liabilities issued by federally regulated national banks. Using an exogenous change in the cost of gaining access to a national bank, we find that the improvement in the liabilities' usefulness as a money-like asset had strong effects on a local economy's commercial and trade activities. Chapter 3 presents evidence demonstrating that a demand for safe assets issued by the central country is a feature of the international monetary system that predates the modern era. Using institutional and empirical evidence from the pre- WWI classical gold standard era, I show that investors were willing to pay a premium for holding the economy's safest asset. In addition, the historical setting allows me to instrument for the supply of safety using shocks to gold mining stemming from weather fluctuations in South Africa.

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