COURSE OBJECTIVES

This course will introduce students to the major issues of financial crises and reform in developing countries. Some of the basic tools of open economy macroeconomics are introduced in order to explore the recent financial crises in the developing world. In the course we will examine the sources of economic instability and the macro policy response to financial crises in developing countries. We will also explore problems in domestic and international financial markets and proposals for reform. The course concludes with an analysis of financial crises and reform in developing countries from a public choice perspective.

Readings may be downloaded from internet websites, including: The National Bureau of Economic research (NBER), The World Bank (WB), and The International Monetary Fund (IMF). Many of these readings may also be found on the website constructed by Nouriel Roubini at New York University 'Asia Crises' Homepage, as indicated in the following outline.

TOPICAL OUTLINE

I. Financial Crises in Developing Economies: An Overview. (Jan. 16- Feb. 1)

Required Readings

A. Financial Crises: Some Basic Concepts

B. Financial Crises in Latin America: An Overview


C. Financial Crises in Asia: An Overview


D. Financial Crises in Transition Economies: An Overview

   Prakash Loungani and Paolo Mauro, 'Capital Flight from Russia', IMF Discussion Paper 00/6

II The Causes of Financial Crises in Developing Economies (Feb 6-22)

Required Readings
A. First Generation Models: Getting Macroeconomic Policies Wrong


B. Second Generation Models: Investor Panic and Multiple Equilibria

Steven Radelet and Jeffrey Sachs, 'The East Asian Financial Crises: Diagnosis, Remedies, Prospects', Harvard Institute for International Development. (Roubini website)

C. Third Generation Models: Financial Market Distortions


D. Contagion and the Severity of financial Crises

Pedro Alba, et. al., 'Volatility and Contagion in a Financially-Integrated World: Lessons from East Asia's Recent Experience', (Roubini website).

E. Perspectives on Financial Crises Models


III. Macro-Policy Reform and Financial Crises in Developing Economies (Feb 27-Mar 15)

Required Readings

A. Stabilization and Structural Adjustment Policy: Some Basic Concepts

B. Fiscal Policy

Delisle Worrell, 'Monetary and Fiscal Coordination in Small Open Economies,' IMF Working Paper 00/56.

C. Monetary Policy


D. Exchange Rate Policy

Jeffrey A. Frankel, 'No Single Currency regime is Right for All Countries or All Times', NBER Working Paper 7338.
IV. Financial Markets and Financial Market Reforms in Developing Economies (Mar 20- Apr 12)

Required Readings

A. Banking Reform


B. Debt and Capital Controls


C. Reforming the International Financial Architecture


V. Institutional Change and Economic Reform in Developing Economies: Public Choice Perspectives
(Apr 17- May 3)

Required Readings (to be added)

COURSE REQUIREMENTS

The seminar will combine lectures and class discussion on these issues. Class attendance and class participation are required. Students should plan to have read the required readings on each issue prior to the class in which the issue is discussed. The readings and class discussion should be used as preparation for both examinations and thesis writing in the development field. Students are also encouraged to meet with faculty individually to discuss these issues outside of the formal class time.