Syllabus

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 with reference to competing models of financial crises. Macro policy responses to financial crises in developing countries are examined. We will also explore problems in domestic and international financial markets that contribute to financial crises. The role of the IMF and proposals for reform of the international financial architecture are critically appraised. The course concludes with an analysis of financial crises and reform in developing countries from a public choice perspective.

Required readings are listed after each sub-topic. Most of the required readings are taken from conferences that are part of the National Bureau of Economic Research Research Project on Exchange Rate Crises in Emerging Markets. You can download these papers from that web site or from the web site for each conference, including: Financial and Currency Crises in Emerging Nations, edited by Martin Feldstein; Managing Currency Crises in Emerging Nations, edited by Michael Dooley and Jeffrey Frankel; and Preventing Currency Crises in Emerging Markets, edited by Sebastian Edwards and Jeffrey Frankel. Several papers are from the Second Annual IMF Research Conference entitled, The Consequences of Large Devaluations and Currency Crises. Some papers are from the web site created by Nouriel Roubini called 'Asia Crises Homepage'.

TOPICAL OUTLINE

I. Financial Crises in Developing Economies: Some Basic Concepts (Jan. 16- Feb. 1)

Required Readings


Rudi Dornbusch, 'A Primer on Emerging Market Crises,' (Edwards and Frankel, editors)

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

Required Reading


Assigned 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)


Paul Krugman, 'The Balance Sheet View of Crises: The Next Generation', (Roubini website)

III. The Current Account, Contagion, and Vulnerability to Crises
Required Reading

Sebastian Edwards, 'Does the Current Account Matter?' (Edwards and Frankel, editors)

Assigned Readings

Kristen Forbes, 'Are Trade Linkages Important Determinants of Country Vulnerability to Crises?' (Edwards and Frankel, editors)

Axel Weber and Gunther Beck, 'Economic Integration and the Exchange Rate Regime: How Damaging are Currency Crises?' (IMF Research Conference)


IV. Stabilization Policy

Required Readings

Javier Hamann and Alessandro Prati, 'Why Do Many Disinflations Fail?' (IMF Research Conference)

Barry Eichengreen and Andrew Rose, 'Does It pay to Defend Against Speculative Attack?' (Dooley and Frankel, editors)

Assigned Readings

A. Fiscal Policy


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

B. Monetary Policy

Allan Draguc, 'Interest Rate Defense Against Speculative Attack As a Signal: A Primer (Dooley and Frankel, editors)


C. Exchange Rate Policy

Jeffrey A. Frankel, ‘No Single Currency regime is Right for All Countries or All Times’, NBER Working Paper 7338.

Dongchui Cho and Kenneth West, 'Interest Rates and Exchange Rates in the Korean, Philippine, and Thai Exchange Rate Crises,' (Dooley and Frankel, editors)

Sebastian Edwards, Exchange Rate Regimes, Capital Flows, and Crises Prevention' (Feldstein, editor)

IV. Financial Markets and Financial Market Reforms in Developing Economies (Mar 20- Apr 12)

Required Reading

Frederic Mishkin, 'Financial Policies and the Prevention of Financial Crises in Emerging Market Countries.' (Feldstein, editor)

Assigned Readings

A. Banking Reform