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 their websites or from the websites 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 website created by Nouriel Roubini called 'Asia Crises Homepage'.

TOPICAL OUTLINE

I. Financial Crises in Developing Economies: Some Basic Concepts (Jan. 15-22)

Required Readings


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

II. The Causes of Financial Crises in Developing Economies (Jan 29-Feb 5)

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)


III. The Current Account, Contagion, and Vulnerability to Crises (Feb.7-14)

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 (Feb. 19-Mar.7)
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 Drague, '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)

V. Financial Markets and Financial Market Reforms in Developing Economies (Mar 12-21)

Required Reading

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

A. Banking Reform

Stijn Claessens, Daniela Klingebiel, and Luc Laeven, 'Financial Restructuring in Banking and Corporate Sector Crises: What Policies to Pursue? ' (Dooley and Frankel, editors)


B. Capital Markets and Capital Controls


Rudy Dornbusch, 'Malaysia's Crises: What Was Different?' (Edwards and Frankel, editors)

Ethen Kapland and Dani Rodrik, 'Did the Malaysian Capital Controls Work?' (Edwards and Frankel, editors)

VI. Public Choice and Economic Reform in Emerging Nations (Mar 26-Apr.4)

Required Reading

William Kaempfer, Anton D. Lowenberg, and William Mertons, 'International Sanctions Against a Dictator,' (mimeo)

Assigned Readings

Shang Jin Wei and Yi Wie, 'Negative Alchemy? Corruption, Composition of Capital Flows and Currency Crises' (Edwards and Frankel, editors)

Anne Kreuger and Jungho Yoo, 'Chaebol Capitalism and the Currency -Financial Crises in Korea', (Edwards and Frankel, editors)


VII. Industrial Country Policies (Apr. 9-18)

Required Reading

M. Schnitzer, 'Debt Versus Foreign Investment: The Impact of Sovereign Risk on the Structure of International Capital Flows,' (mimeo)

E. Janeba 'Attracting FDI in a Politically Risky World,' (mimeo)

Assigned Readings

A. Foreign Direct Investment in Financial Crises


B. Industrial Country Policies

Jeffrey Frankel and Nouriel Roubini, 'Industrial Country Policies,' (Feldstein, editor)

William Cline, 'The Role of the Private Sector in Resolving Financial Crises in Emerging Markets,' (Feldstein, editor)

VIII. Reforming the International Financial Architecture (Apr. 23-May 2)

Required Readings


Morris Goldstein, 'An Evaluation of Proposals to Reform the International Financial Architecture,' (Dooley and Frankel, editors)

Assigned Readings

A. IMF Stabilization Programs

Anne Krueger, 'IMF Stabilization Programs', (Feldstein, editor)

Michael Hutchison, 'A Cure Worse than the Disease: Currency Crises and the Output Costs of IMF Supported Stabilization Programs,' (Dooley and Frankel, editors)

Olivier Jeanne and Charles Wyplosz, 'The International Lender of Last resort: How Large is Large Enough?' (Dooley and Frankel, editors)

B. IMF Structural Adjustment Programs
Morris Goldstein, 'IMF Structural Adjustment Programs,' (Feldstein, editor)

William Easterly, 'IMF and World Bank Structural Adjustment Programs and Poverty,' (Dooley and Frankel, editors)

Robert Barro and Jong Whu Lee, 'IMF Programs, Who is Chosen and What Are the Effects' (IMF Research Conference)

George Anayiotis and Alexandros Mourmouras, 'What Explains the Success and Failure of Fund Supported Programs,' (IMF Research Conference)

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. Other readings will be assigned to individual seminar members to report to the class. The reports should include a summary of the major ideas in the paper and a critical assessment based upon the other readings and source materials. Copies of the report should be distributed prior to the seminar session in which the report is to be presented.

Each student is required to submit a research proposal which is due on the last day of class. The purpose of the research proposal is to help you to identify a research project that you could pursue and possibly to write a thesis. The research proposal should include a thesis statement, preferably in the form of a verifiable hypothesis; a preliminary literature review; a preliminary proposed methodology including relevant theory and econometric analysis, and in the case of applied research at least a preliminary assessment of data sources and availability. The operative word here is preliminary, you are not expected to have any part of the research proposal on a final completed form; but rather use the research project as an opportunity to determine whether this is a viable research project based upon your preliminary assessment. The work on the research proposal may also be used to fulfill requirements in other graduate courses such as the research seminar. The final grade is based upon the work in the seminar (75%) and the research proposal (25%)