B8399-004 – Emerging Financial Markets

Fall Term 2013

PROFESSOR NAME  David Beim

Professor Office Location:  Uris 312

Office Phone:  212-854-3484

Fax:  212-854-3816

E-mail:  dob1@columbia.edu

Office Hours:  Tuesdays 9:00am-12:00pm

TEACHING ASSISTANT

Pablo Slutzky  pslutzky17@gsb.columbia.edu

REQUIRED COURSE MATERIAL

Casebook readings (see below)

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

The learning in this course will utilize, build on and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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<tbody>
<tr>
<td>Corporate Finance</td>
<td>Discounted cash flow analysis</td>
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<tr>
<td></td>
<td>Valuation of firms</td>
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<tr>
<td>Global Economic Environment</td>
<td>Drivers of economic growth</td>
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<td></td>
<td>Causes of inflation</td>
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<td></td>
<td>Causes of financial crises and the role of regulation</td>
</tr>
<tr>
<td>Strategy Formulation</td>
<td>Sources of economic value</td>
</tr>
<tr>
<td></td>
<td>Creation of value through strategy.</td>
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</tbody>
</table>

Students will be expected to have mastered these concepts and be able to apply them in the course.
COURSE DESCRIPTION

This course is about countries well enough developed to attract capital and have significant financial markets but not fully modernized – countries like China, India, Turkey and Brazil – but also Greece. It explores the institutional foundations of financial markets and centers on the question: what factors make emerging financial markets (EFMs) different from developed financial markets?

The course focuses on four foundations needed by all effective financial systems:

i. **Legal structure.** The most basic element is the legal foundation. Does the rule of law prevail at all, and if so what form does it take? Is there anti-fraud protection? What rights do lenders and security-holders have when things go badly? How efficient are the courts? Is there an independent securities market regulator? Why is bankruptcy important?

ii. **Information and control.** Developed financial markets have institutions of information, which disseminate substantial amounts of data on companies that are used by investors to make informed decisions. Without accurate information, how do markets behave? Who monitors corporate performance, and who monitors the monitors? How well is self-dealing by insiders controlled and how?

iii. **Inflation and currency.** Many developing countries suffer at least a moderate degree of inflation, and a few suffer hyperinflation at least during certain periods. This profoundly affects the structure of markets and the way financial institutions make money. What is the best way to control inflation? Should currency values be fixed, floating, or managed in some mixed arrangement?

iv. **Financial institutions.** Banks are the central feature of most emerging financial markets, but are often riddled with bad loans, leading to massive value losses. We will examine the managerial issues associated with running effective financial institutions.

Finally, we turn to sovereign debt, banking and debt crises and joint crises of banks and currencies. We will look at defaults in Russia and Argentina, and debt sustainability problems in Brazil, Turkey and Greece.

COURSE OBJECTIVES

The goal is to provide a framework with which students can analyze and understand economic and financial issues in the developing world.

ASSIGNMENTS

The main deliverable is a research paper, which is written in teams of up to maximum four students. This is a Type A assignment with full collaboration and a single grade for all team members. The research paper focuses on one particular financial institution in a developing country. It is written in two parts, with revision of the first part after its return.

In addition there are three individual Type B assignments which students are to prepare by themselves. One involves an effort to value the Russian firm Gazprom in confusing informational conditions. The second is an assessment of the strategy and risks of Kenya’s Equity Bank. The third is a problem set on Greek debt dynamics.

All assignments are submitted online.
METHOD OF EVALUATION

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Class Participation</td>
<td>20%</td>
</tr>
<tr>
<td>Assignments</td>
<td>30%</td>
</tr>
<tr>
<td>Research Project</td>
<td>50%</td>
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</tbody>
</table>

CLASSROOM NORMS AND EXPECTATIONS

Class attendance and participation is important in this course – 20% of the grade, assessed both qualitatively and quantitatively. Each class includes a polling question, frequently at the start of the class, which serves to record attendance. Each student is expected to have a functioning clicker to respond to these questions. Everyone is expected to speak up and join the classroom discussions.

Students are expected to arrive in the classroom before the class begins. Late arrival will usually be recorded as absence.

CASEBOOK READINGS

Class #9: DOB, “Champacoal” (July, 2008).
Class #10: Gaddy, Clifford G. and Barry W. Ickes, “Russia’s Virtual Economy” (September, 1998); DOB, “Gazprom” (April, 2011).
Class #13: Hinds, Manuel, “Playing Monopoly with the Devil” (2005)
Class #14: The Economist Survey of Brazil (November, 2009).
Class #17: DOB and Murray Low, “Equity Bank” (June, 2011).
Class #22: Euromoney, “How to Engineer a Financial Gallows.” (2002); and The Economist Survey of Turkey (October, 2010).
Class #23: DOB, “Peregrine Investments” (December, 2006).
DAILY CALENDAR

Economic Growth


Finance and the State


9/25  7. India: Growth by education and liberalization. India’s growth model and India’s financial system. India’s integration into the global economy and implications for financial flows. (Reading: India Committee on Financial Sector Reforms, Draft Report Summary ).

Information


Law


[Break]
Inflation and Currency


10/28  14. Brazil: Growth through currency and interest rate management. Brazil’s growth model and Brazil’s financial system. Current stresses on currency value and interest rates. (Reading: The Economist Survey of Brazil).

Understanding Financial Institutions


Debt and Financial Crises


11/18  19. Guest speaker: Mr. Deepak Parekh, Chairman HDFC Ltd.


12/2  22. Turkey: Growth and debt sustainability. The multiple sovereign debt / banking / currency crises in Turkey and how equilibrium was finally reached. (Readings: “How to Engineer a Financial Gallows” and The Economist Survey of Turkey).

12/4  23. Peregrine Investments. (Reading: Peregrine case).