Emerging Financial Markets (B8348)

Professor Charles W. Calomiris

Spring 2015

This course explores the main risk factors in the financial systems of emerging market countries (EMs) over the past three decades, and historically. The course shows how one can use characteristics of countries to predict their companies’ and governments’ performance and risks. EMs are countries that have decided to "emerge" from a condition of financial under-development (sometimes called "financial repression"). EMs engage in a program of market-oriented reforms which include: foreign trade opening, privatization of state-owned enterprises, and the liberalization and deregulation of domestic financial systems and international capital markets. Emergence typically involves a variety of such changes, as well as related institutional changes that support those efforts (reforms of the legal and regulatory systems, the corporate laws, and the fiscal and monetary systems).

This course investigates the determinants of successful or unsuccessful emergence. Said differently, the course helps to identify factors that make emergence more or less likely to succeed. Failure of emergence often takes the form of a major financial crisis, in which the failings of the EM policy regime are brought to light. Thus, an important part of analyzing the success or failure of emergence entails the analysis of EM financial crises.

The course reading materials include two books [Emerging Financial Markets, by David Beim and Charles Calomiris, 2001 (EFM)], and Fragile By Design, by Charles Calomiris and Stephen Haber, various articles noted below, various case studies, and the lecture slides, which will be distributed for each class. The Beim-Calomiris book is available in electronic form for free, along with the individual readings. Students are expected to prepare for class by reading the assigned readings and preparing case solutions as a group for each case. The case solutions will be submitted in writing by teams of four or five students. Students are responsible for forming teams. Team lists must be submitted in hard copy form to the instructor at the beginning of the second class meeting.

Grading is based on team case solutions (35%), individual class participation (30%), and a take-home final exam that will test knowledge from the readings and lectures for the class (35%). The take-home final exam will be distributed on April 27 and will be due by 5 pm on May 1. The last day of class is April 29. The final exam will consist of short-essay questions that will test comprehension of the material in the required readings and the class discussions. It should take no more than 3 hours to complete the exam. Case solutions should be no more than four pages of text (double-spaced, Times Roman 12 font with normal margins), which follow a one-page executive summary. Up to five pages of charts and tables may be attached.

The syllabus refers to many readings. Only some readings are required, and these are available in the readings packets. Additional readings listed in the syllabus are background to lectures. These will be available to students, but are not required.

The following is a preliminary list of readings. This list will be revised prior to our first class meeting, January 28, 2015.
COURSE SCHEDULE AND READINGS

Readings with asterisks (*) are required, and are included in the readings packet.


* EFM, Chapters 1-3.
* Charles Calomiris and Stephen Haber, Fragile By Design: Banking Crises, Scarce Credit and Political Bargains, Princeton University Press, 2014, Chapters 1-5.

February 9, 11, 16 and 18: Sovereign Risk and Corporate Securities Risk.


February 23, and 25, March 2 and 9: Legal and Political Foundations of Finance and Governance

* EFM. Chapters 4-5.
Charles Calomiris and Stephen Haber, *Fragile By Design*, Mexico Chapter.
* Case: Thai Petrochemical Industry (*Solutions due March 2, beginning of Class*)
March 23 and 25: Inflation and Exchange Rate Policies.

- **EFM**, Chapters 6.
- **Case**: Banco Itau. (Solutions due March 25, beginning of Class)
- **Case**: Brahma/Antarctica. (Solutions due March 30, beginning of Class)

March 30, April 1 and 6: Banking Crises (Panics, insolvency crises, regulation).

- Charles Calomiris and Stephen Haber, *Fragile By Design*, Chapters 6, 9, 14 and 15.
- **Case**: Kenya’s Equity Bank: The Real Thing? (Solutions due April 6, beginning of Class)


- **EFM**, Chapter 8.
- Charles Calomiris and Stephen Haber, *Fragile By Design*, Chapters 10 and 11.
* **Case:** Peregrine Investment Holdings, Ltd. (Solutions due April 13, beginning of class)

**April 20, 22, 27: Submergence: The Subprime Crisis, and the Eurozone Crisis**

* Charles Calomiris and Stephen Haber, *Fragile By Design,* Chapters 7 and 8.


