Emerging Financial Markets (B7399)

Professor Charles W. Calomiris

Spring 2016

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 economic and 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 political and 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.

Required readings consist of 4 books, 24 articles, and 5 case studies. This is a heavy reading load, and students taking the course must expect to spend a significant amount of time reading. Emerging Financial Markets, by David Beim and Charles Calomiris, 2001 (EFM), is a text for the course. Fragile By Design, by Charles Calomiris and Stephen Haber, and Jonathan Fenby's Will China Dominate the 21st Century are available at Columbia bookstore and in the library. All other readings (including EFM) and the case studies are in the electronic course packet. In addition to the 5 written case study assignments student teams must complete, there are several "mini-case debates" that teams will present in class.

Students are expected to prepare for class by reading the assigned readings and preparing mini-case debate presentations or written case solutions as a group. Groups consist of a team of four or five students. Students are responsible for forming groups immediately after the first class. 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 presentations and case solutions (25%), individual class participation (25%), an in-class mid-term examination on March 30 consisting of multiple choice and short-answer questions (25%), and a take-home final exam consisting of longer-answer questions (25%). The take-home final exam will be distributed on April 25 and will be due by 5 pm on May 2. The last day of class is April 27. The mid-term and final exams will test comprehension of the material in the required readings and the class discussions. The final exam should take no more than 3 hours to complete. 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.

Office hours are 4-6 pm Mondays, 9-11 am Tuesdays in 601 Uris Hall.

The following is a list of readings and assignments for each class meeting.
COURSE SCHEDULE AND READINGS

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

January 27: Defining and Explaining Emergence.

* EFM. Chapters 1-3.

February 1: Institutional foundations of economics and finance. Limits to globalization.


Mini-Case Debate February 3 (Two student teams) take pro and con positions on the Alston, Melo, Mueller and Pereira book.

February 10: Opening up to global banking. Opening up capital markets more generally.


Mini-Case Debate February 10 (Two student teams) take pro and con positions on whether Russia should impose capital controls and, if so, how?
February 15 and 17: Sovereign Risk and Corporate Securities Risk.


Mini-Case Debate February 17 (Two student teams) considers whether Ghana’s sovereign wealth plan is working and will be likely to work in the future.

February 22 and 24: Legal Foundations of Finance and Corporate Governance

- EFM, Chapters 4-5.

Mini-Case Debate February 24 (Two student teams) considers whether India is about to make major political and institutional changes that will propel a new era of growth.
February 29 and March 2: Focus on China's Financial Reforms

* Case: Thai Petrochemical Industry (Solutions due February 29, beginning of Class)

Mini-Case Debate March 2 (Two student teams) considers whether China's current attempts to rein in shadow banking, while maintaining high growth, financial modernization, and exchange rate stability will work.

March 21 and 23: Inflation and Exchange Rate Policies.

* EFM, Chapters 6.
* Charles Calomiris and Stephen Haber, *Fragile By Design*, Chapters 4-6, 12-13.
* Case: Banco Itau. (Solutions due March 23, beginning of Class)

>>>March 28: MID-TERM EXAMINATION IN CLASS (CLOSED-BOOK)<<<<

March 30 and April 4: Banking in Emerging markets.

* EFM, Chapter 7.
* Case: Brahma/Antarctica. (Solutions due April 4, beginning of Class)


* EFM, Chapter 8.

- **Case: Kenya’s Equity Bank: The Real Thing? (Solutions due April 11, beginning of Class)**

**April 18 and 20: Effective Prudential Regulation**


* **Case: Peregrine Investment Holdings, Ltd. (Solutions due April 18, beginning of class)**


April 27: Course review

This class provides students an opportunity to comment upon which topics, readings, cases, discussions, and mini-case debates were most interesting and which were least interesting. **Attendance is mandatory.** This last meeting is not used by the instructor to review substantive course material or to answer questions about that material, given that the students already will be working on their take-home final, which is distributed on April 25 and due on May 2.