Emerging Financial Markets (8348-002)

Professor Charles W. Calomiris

Spring 2017

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 books, articles, and case studies. Students taking the course have a significant amount of reading. Emerging Financial Markets, by David Beim and Charles Calomiris, 2001 (EFM), is a somewhat outdated text for the course, but there is no ready substitute, which explains the need for so many additional readings. Fragile By Design, by Charles Calomiris and Stephen Haber, and Will China Dominate the 21st Century by Jonathan Fenby 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 at the start of the second class.

Grading is based on team presentations and case solutions (25%), individual class participation (25%), an in-class mid-term examination on March 28 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 24 and will be due by 5 pm on May 1. The last day of class is April 26. 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 25: Defining and Explaining Emergence.

* EFM. Chapters 1-3.


Mini-Case Debate February 1 (Two student teams) take pro and con positions on whether Indonesia’s recently announced reforms will matter for growth, and whether this is a good moment for your hedge fund to increase investment in Indonesia

February 8: Opening up to global banking. Opening up capital markets more generally.

  Frederick Ahiabor and Gregory James, “Domestic Lead Arranger Certification and the Pricing of

Mini-Case Debate February 10 (Two student teams) take pro and con positions on the Alston, Melo, Mueller and Pereira book (Teams are expected to read the book).

February 13 and 15: Sovereign Risk and Corporate Securities Risk.


Mini-Case Debate February 15 (Two student teams) considers whether Ghana’s sovereign wealth plan has been working since 2012, and will be likely to work in the future.

February 20 and 22: Legal Foundations of Finance and Corporate Governance

* EFM, Chapters 4-5.


Jose Pinera, For a True Pension Reform, pp. 1-35.


Mini-Case Debate February 22 (Two student teams) considers whether India is making major political and institutional changes that will propel a new era of growth.

February 27 and March 1: Focus on China’s Financial Reforms


* Case: Thai Petrochemical Industry (Solutions due February 27, beginning of Class)

Mini-Case Debate March 1 (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. Teams should take pro or con positions on whether your hedge fund should short the yuan, and if so, how?

**March 20 and 22: 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 22, beginning of Class)

**March 29 and April 3: Banking in Emerging markets.**

* EFM, Chapter 7.

* Case: Brahma/Antarctica. (Solutions due April 3, beginning of Class)


* EFM, Chapter 8.


* Case: Kenya's Equity Bank: The Real Thing? (Solutions due April 10, beginning of Class)

**April 17 and 19: Effective Prudential Regulation**


* Case: Peregrine Investment Holdings, Ltd. (Solutions due April 17, beginning of class)


April 26: 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 24 and due on May 1.