**Emerging Financial Markets (8348-002)**

Professor Charles W. Calomiris

Spring 2018

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 is heavy in this class, 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 background text for the course. Another book we will use, *Fragile By Design*, by Charles Calomiris and Stephen Haber, is available at Columbia bookstore and in the library. Others readings (including **EFM**) and the case studies are in the electronic course packet. In addition to the 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 **three or** **four** 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 of mini-cases and seven written case solutions (35%), individual class participation (25%), an in-class mid-term examination on March 28 consisting of multiple choice and short-answer questions (20%), and a take-home final exam consisting of longer-answer questions (20%). **The take-home final exam will be distributed on April 23 and will be due by 5 pm on April 30.** The last day of class is April 25. 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 24: Defining and Explaining Emergence.**

  **\* EFM**, Chapters 1-3.

 Peter Henry, “Capital Account Liberalization, the Cost of Capital, and Economic Growth,”

 NBER, February 2003.

 Charles Calomiris, *A Globalist Manifesto for Public Policy*, IEA Press, 2002.

 Chris Edwards, “Why the Federal Government Fails,” Policy Analysis, Cato Institute, July 2015.

 Michelle Connolly and Kei-Mu Yi, “How Much of South Korea’s Growth Miracle Can Be Explained

 by Trade Policy?” *American Economic Journal: Macroeconomics*, 2015.

Stanley Engerman and Kenneth Sokoloff, “Factor Endowments, Inequality, and Paths of

 Development among New World Economies,” NBER Working Paper 9259, October 2002.

Rafael Dobado Gonzalez and Hector Garcia Montero, “Colonial Origins of Inequality in Hispanic

 America? Some Reflections Based on New Empirical Evidence,” *Revista de Historia*

 *Economica*, 2010.

**January 29:** **Institutional foundations of economics and finance. Limits to globalization.**

 \* Rene Stulz, “The Limits of Financial Globalization,” NBER, January 2005.

 G. Andrew Karolyi, *Cracking the Emerging Markets Enigma*, 2015.

 \* Charles Calomiris, Mauricio Larrain and Sergio Schmukler, “Capital Inflows, Equity Issuance

 Activity, and Corporate Investment,” Working paper, 2018.

 Geert Bekaert and Campbell Harvey, “Equity Market Liberalization in Emerging Markets,”

*The Journal of Financial Research,2003.*

 J. Brown, G. Martinsson, and B.C. Petersen, “Stock Markets, Credit Markets, and Technology-

 Led Growth,” Working paper, 2015.

 Nicolas Coeurdacier, S. Guibaud, and Keyu Jin, “Credit Constraints and Growth in a Global

 Economy,” *American Economic Review*, 2015.

 Raymond Fisman, “Estimating the Value of Political Connections,” *American*

 *Economic Review*, 2001.

 \* Daron Acemoglu and James A. Robinson, “The Rise and Decline of General Laws of Capitalism,”

 Working paper, December 2014.

 \* Daron Acemoglu, Simon Johnson, and James A. Robinson, “An African Success Story:

 Botswana,” *In Search of Prosperity: Analytical Narratives on Economic Growth*.

 Lee Alston, M.A. Melo, B. Mueller, and C. Pereira, *Beliefs, Leadership and Critical Transitions:*

 *Brazil, 1964-2014*, Princeton University Press, 201.

**January 31 and February 5: Financial repression. Political foundations of finance.**

 \* Charles Calomiris and Stephen Haber, *Fragile By Design: Banking Crises, Scarce Credit and*

 *Political Bargains*, Princeton University Press, 2014, Chapters 1-3.

 Peter Rousseau and Richard Sylla, "Financial Systems, Economic Growth, and

 Globalization," in *Globalization: An Historical Perspective*," 373ff.

 B. Cournede, O. Denk, and P. Hoeller, “Finance and Inclusive Growth,” OECD, 2015.

 Francisco Buera, Joseph Kaboski, and Yongseok Shin, “Finance and Development: A Tale

of Two Sectors,” *American Economic Review*, 2011.

**Mini-Case Debate January 31 (Two student teams) considers India’s prospects for political and institutional changes and growth.**

**Mini-Case Debate February 5 (Two student teams) take pro and con positions on the**

**Fiscal future of Brazil (including Alston, Melo, Mueller and Pereira book).**

**February 7: Risks of Opening up capital markets.**

 \* Graciela Kaminsky and Sergio Schmukler, “Short-Run Pain, Long-Run Gain: The Effects

 Of Financial Liberalization,” NBER, June 2003.

 Graciela Kaminsky, “Crises and Sudden Stops: Evidence from International Bond and

 Syndicated-Loan Markets,” NBER, August 2008.

Laura Alfaro, Thorsten Beck and Charles Calomiris, “Foreign Bank Entry and Entrepreneurship,”

 Working paper, November 2015.

 Joshua Aizenman and Gurnain K. Pasricha, “Why Do Emerging Markets Liberalize Capital

 Outflow Controls? Fiscal versus Net Capital Flow Concerns,” NBER 18879, March 2013.

 Barry Eichengreen and Andrew Rose, “Capital Controls in the 21st Century,” CEPR, June 2014.

 Michael Klein and Jay Shambaugh, “Rounding the Corners of the Policy Trilemma,” *American*

*Economic Journal: Macroeconomics*, 2015.

 Lucy Chernykh and Sergey Mityakov, “Offshore Banking, Tax Evasion, and Performance:

 Evidence from Moscow Administrative Data,” Working paper, January 2015.

 **Case: Liquidity Risk in Emerging Markets: Russia and Brazil Bonds in 1998, and the Taper**

 **Tantrum of 2013, due beginning of class February 7.**

**February 12 and 14: Sovereign Risk and Corporate Securities Risk.**

 \* Juan Cruces and Christoph Trebesch, “Sovereign Defaults: The Price of Haircuts,” Working

 Paper, Universidad Torcuato di Tella, July 2011.

 \* Richard Cantor and Frank Packer, “Determinants and Impact of Sovereign Credit Ratings,”

*Quarterly Review*, Federal Reserve Bank of New York, 1997.

 Suk Hun Lee, Hyun Mo Sung, and Jorge L. Urrutia, “The Impact of the Persian Gulf Crisis on the

 Prices of LDCs’ Loans,” *Journal of Financial Services Research*, 1996.

 Carmen Reinhart and Kenneth Rogoff, “From Financial Crash to Debt Crisis,” *American*

 *Economic Review,* 2011.

Hisham Al Refai, “[The Impact of the Iraq War on the Country Beta of MENA Markets](http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CEUQFjAB&url=http%3A%2F%2Fwww.ccsenet.org%2Fjournal%2Findex.php%2Fijef%2Farticle%2Fdownload%2F7449%2F7309&ei=7hwsUIyoG4r96gHqhYC4CA&usg=AFQjCNHt0Hcyq7Zc_4k7GGDjH10pFxGy6g&cad=rja), *International Journal of Economics and Finance*, 2010.

Geert Bekaert, and Campbell Harvey, “Emerging market finance,” *Journal of Empirical*

 *Finance,* 1998.

Geert Bekaert, C. Erb, C. Harvey, C. and T. Viskanta, T. “Distributional Characteristics of

 Emerging Market Returns and Asset Allocation,” *Journal of Portfolio Management,* 1998.

E.Cakan, N. Doytch, and K.P. Upadhyaya, “Does U.S. Macroeconomic News Make Emerging

 Financial Markets Riskier?” *Borsa Istanbul Review*, 2015.

Morgan Stanley, “Securities Lending: Latin American Market Overview,” 2012.

Senay Agca, Gianni de Nicolo, and Enrica Detragiache, “Financial Reforms, Financial Openness,

 and Corporate Debt Maturity: International Evidence,” *Borsa Istanbul Review*, 2015.

 Efi Chalamish and Steve Opata, “A Sovereign Wealth Case Study from Ghana,” <http://www.centralbanking.com/central-banking-journal/feature/2175129/sovereign-wealth-study-ghana>, May 16, 2012.

**Mini-Case Debate February 14 (Two student teams) considers whether Ghana’s sovereign wealth plan is working and will be likely to work in the future.**

**February 19 and 21: Legal Foundations of Finance and Corporate Governance**

 \* **EFM**, Chapters 4-5.

 Yan-Leung Cheung, In-Mu Haw, Weiqiang Tan and Wenming Wang, “Board Structure and

 Intragroup Propping: Evidence from Family Business Groups in Hong Kong, *Financial*

 *Management*, Fall 2014, 569-601.

 Nuno Fernandes and Mariassunta Giannetti, “On the Fortunes of Stock Exchanges and Their

 Reversals: Evidence from Foreign Listings,” *Journal of Financial Intermediation*, 2014.

Bernard Black and Vikramaditya Khanna, "Can Corporate Governance Reforms

            Increase Firms' Market Values: Evidence from India," 2007.

Bernard Black, Hasung Jang and Woochan Kim, "Does Corporate Governance

            Predict Firms' Market Values? Evidence from Korea," 2006.

 \* Gledson Carvalho and George Pennacchi, “Can Voluntary Market Reforms Promote

 Efficient Corporate Governance? Evidence from Firms’ Migration to Premium

Markets in Brazil,” Working Paper 2007.

 \* Charles Calomiris, Mauricio Larrain, Jose Liberti, Jason Sturgess, “How Collateral Laws Shape

 Lending and Sectoral Activity,” *Journal of Financial Economics*, 2016.

 Pol Antras, Mihir Desai, and Fritz Foley, "Multinational Firms, FDI Flows and

                        Imperfect Capital Markets," Working Paper, January 2007.

 Laura Alfaro and Maggie Xiaoyang Chen, “Surviving the Global Financial Crisis: Foreign

 Ownership and Establishment Performance,” *American Economic Journal: Economic*

 *Policy*, 2012.

Kee-Hong Bae and Vidhan Goyal, “Creditor Rights, Enforcement, and Bank Loans,” *Journal of*

 *Finance*, 2009.

            Rainer Haselmann, Katharina Pistor, and Vikrant Vig, "How Law Affects Lending," Working

 Paper, September 2006.

Sujata Visaria, Legal Reform and Loan Repayment: The Microeconomic Impact

                        of Debt Recovery Tribunals in India, 2006.

Asim Ijaz Khwaja, Atif Mian, and Bilal Zia, "Dollars Dollars Everywhere, Not a

                        Dime to Lend," Working Paper, March 2007.

**Case: Thai Petrochemical Industry, due beginning of class, February 21.**

**February 26 and 28: Focus on China’s Financial Reforms**

 \* Lee Branstetter, “China’s Financial Markets: An Overview,” in Charles Calomiris, editor,

 *China’s Financial Transition*, Chapter 1.

 \* Jonathan Fenby, *Will China Dominate the 21st Century?* Polity Press, 2014.

 \* Tri Vi Dang, Honglin Wang, and Aidan Yao, “Chinese Shadow Banking: Bank-Centric

 Misperceptions,” Working paper, 2014.

 Genevieve Boyreau-Debray and Shang-Jin Wei, “Pitfalls of a State-Dominated Financial

 System: The Case of China, NBER Working paper 11214, 2005.

 Zheng Song, Kjetil Storesletten, and Fabrizio Zilibotti, “Growing Like China,” *American Economic*

 *Review*, 2011.

 Asim Khwaja and Atif Mian, “Do Lenders Favor Politically Connected Firms?” *Quarterly Journal of*

 *Economics*, 2005.

 T.T. Chong, L. Lu, and S. Ongena, “Does Banking Competition Alleviate or Worsen Credit

 Constraints Faced by Small and Medium Enterprises?” *Journal of Banking and Finance*

2013.

 Meghana Ayyagari, Asli Demirguc-Kunt, and Vojislav Maksimovic, “Formal versus Informal

 Finance: Evidence from China,” *Review of Financial Studies*, 2010.

Hans Degryse, Liping Lu, and Steven Ongena, “Informal or Formal Financing? Or Both? First

 Evidence on the Co-Funding of Chinese Firms,” *Journal of Financial Intermediation* 2016.

Warren Bailey, Wei Huang, and Shishu Yang, “Bank Loans with Chinese Characteristics: Some

 Evidence on Inside Debt in a State-Controlled Banking System,” *Journal of Financial and*

 *Quantitative Analysis*, 2011.

 Chenggang Xu, “China’s Political-Economic Institutions and Development,” *Cato Journal*, 2015.

 Di Guo, Kun Jiang, B-Y Kim, and Chenggang Xu, “Political Economy of Private Firms in China,”

 *Journal of Comparative Economics*, May 2014, pp. 286-303.

 C.C. Curtis, S. Lugauer and N.C. Mark, “Demographic Patterns and Household Savings in

 China,” *American Economic Journal: Macroeconomics*, 2015.

 Fitch Ratings, “Chinese Banks: No Pause in Credit Growth, Still on Pace with 2009,”

 December 2010.

 \* Charles Calomiris, Ray Fisman, and Yongxiang Wang, "Profiting from Government

 Stakes in a Command Economy: Evidence from China's Asset Sales

 Announcements,” *Journal of Financial Economics,* 2010.

 Fitch Ratings, “Chinese Banks: Informal Securitisation Increasingly Distorting Credit

 Data,” July 2010.

 Meghana Ayyagari, Asli Demirguc-Kunt, and Vojislav Maksimovic, “Formal versus

 Informal Finance: Evidence from China,” World Bank, 2009.

 **Case: The Future of the Yuan, and Responding with a Trading Strategy, due beginning**

**of class February 28.**

**March 19 and 21: Inflation and Exchange Rate Policies.**

  \* **EFM**, Chapters 6.

            Charles Calomiris and Ian Domowitz, "Asset Substitution, Money, and Inflation

                        in Brazil," *Journal of Money, Credit and Banking*, February 1989.

 Charles Calomiris, “Institutional Failure, Monetary Scarcity, and the Depreciation of the

 Continental,” *Journal of Economic History*, 1988.

 \* Charles Calomiris and Stephen Haber, *Fragile By Design*, Chapters 4-6, 12-13.

\* Charles Calomiris, "Devaluation with Contract Redenomination in Argentina, *Annals of*

 *Finance*, January 2007.

  **Case: Banco Itau, due beginning of class March 21.**

**>>>March 26: MID-TERM EXAMINATION IN CLASS (CLOSED-BOOK)<<<**

**March 28 and April 2: Banking in Emerging markets.**

 **\* EFM**, Chapter 7.

. **Case**: **Kenya’s Equity Bank: The Real Thing?, due beginning of class, April 4.**

**April 4, 9, 11: Taxonomy, Causes and Social Costs of EM financial crises, historically and in the present era.  Mexico 1995. East Asia 1997. Russia 1998. Brazil 1999. Argentina 2001.**

 \* **EFM**, Chapter 8.

 Daniel Paravisini, “Local Bank Financial Constraints and Firm Access to External Finance,”

 *Journal of Finance*, 2008.

Enrica Detragiache, Thierry Tressel and Poonam Gupta, “Foreign Banks in Poor Countries:

Theory and Evidence,” *Journal of Finance*, 2008.

Charles Calomiris, “Banking Crises and the Rules of the Game,” November 2009.

# Moritz Schularick and Alan Taylor, “Credit Booms Gone Bust: Monetary Policy, Leverage Cycles

#  and Financial Crises, 1870–2008,” *American Economic Review*, 2012.

 \* Charles Calomiris and Stephen Haber, *Fragile By Design*, Chapters 10-11, 14-15.

 Giacomo Nocera, Giuliano Iannotta, and Andrea Sironi, “The Impact of Government Ownership

 On Bank Risk,” Working Paper, Bocconi University, 2012.

  \* Stephen Haber, "Mexico's Experiments with Bank Privatization and Liberalization,

 1991-2003," *Journal of Banking and Finance*, 2005.

 \* Campbell Harvey and Andrew Roper, “The Asian Bet,” Working Paper, March 1999

 Nicola Cetorelli and Linda Goldberg, “Banking Globalization and Monetary

 Transmission,” *Journal of Finance*, 2014.

Davide Furceri and Aleksandra Zdzienicka, “How Costly Are Debt Crises?”

 Working Paper, 2011.

Serkan Arslanalp and Peter Henry, “Debt Relief: What Do the Markets Think?” NBER,

 December 2002.

             **Case: Brahma/Antarctica, due beginning of class April 11.**

**April 16 and 18: Effective Prudential Regulation**

 \* Asli Demirguc-Kunt and Enrica Detragiache, “Basel Core Principles and Bank

 Soundness: Does Compliance Matter?” World Bank, March 2010.

 James Barth, Gerard Caprio, and Ross Levine, *Rethinking Bank Regulation*,

 Cambridge University Press, 2006.

Alexei Karas et al., “How Do Russian Depositors Discipline their Banks?” *Oxford*

 *Economic Papers* 62, 2010, 36-61.

 \* Charles Calomiris and Andrew Powell, "Can Emerging Market Bank Regulators Establish

 Credible Discipline? The Case of Argentina, 1992-99," in *Prudential Supervision: What*

 *Works and What Doesn't*, pp. 147-96.

Craig Brown and Serdar Dinc, “Too Many to Fail? Evidence of Regulatory Forbearance

 When the Banking Sector Is Weak,” *Review of Financial Studies*, May 2009.

 Pablo Federico, Carlos Vegh, and Guillermo Vuletin, “Effects and Role of Macroprudential Policy:

 Evidence from Reserve Requirements Based on a Narrative Approach,” Working Paper,

 November 2013.

 Charles W. Calomiris, “Identifying the Right Mix of Capital and Cash Requirements in Prudential

 Bank Regulation,” *Journal of Applied Corporate Finance*, 24, Winter 2012, 33-41.

Charles W. Calomiris, “An Incentive-Robust Programme for Financial Reform,” *The Manchester*

 *School*, Supplement, 2011, 39-72

Charles W. Calomiris and Richard Herring, “How to Design a Contingent Convertible Debt Requirement That Helps Solve Our Too-Big-to-Fail Problem,”*Journal of Applied Corporate Finance*, 25, Spring 2013, 66-89.

 Lubomir Mitov and Jared Bebee, “Bulgaria: A Self-Inflicted Banking Crisis,” Institute for

 International Finance, July 3, 2014.

S. Aiyar, C. Calomiris, and T. Wieladek, “How Does Credit Supply Respond to Monetary Policy

 and Bank Minimum Capital Requirements?” *European Economic Review*, 2016.

 S. Aiyar, C. Calomiris, J. Hooley, Y. Korniyenko, and T. Wieladek “The International Transmission of Bank Capital Requirements: Evidence from the UK,” *Journal of Financial Economics*, September 2014, 113, 368-82.

Anand Sinha, “Macroprudential Policies: Indian Experience,” 2009.

 \* Viral Acharya and Charles W. Calomiris, “A Macroprudential Policy Framework for the EU and Its

 Member States,” in *Macroprudentialism*, edited by D. Shoenmaker December 2014.

 **\* Case: Peregrine Investment Holdings, Ltd., due beginning of class, April 18.**

**April 23: Sub-mergence? Emerging Markets and Global Shocks, 2005-2015**

 Charles Calomiris and Stephen Haber, *Fragile By Design*, Chapters 7-9.

 G. Andrew Karolyi, *Cracking the Emerging Markets Enigma*, 2015.

 R. De Haas, Y. Korniyenko, A. Pivovarsky, and T. Tsankova, “Taming the Herd? Foreign Banks,

 the Vienna Initiative and Crisis Transmission,” *Journal of Financial Intermediation*, 2015.

 \* Nicola Cetorelli and Linda Goldberg, “Global Banks and International Shock

 Transmission,” Federal Reserve Bank of New York, April 2010.

 \* Charles Calomiris, Inessa Love, and Sole Martinez-Peria, “Global Returns' Sensitivities

 to Crisis Shocks,” *Journal of International Money and Finance* 30, 2012, 1-23.

 **Mini-Case debate: Prospects for Indonesia.**

**April 25: 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 23 and due on April 30.