Emerging Financial Markets (8348-002)

Professor Charles W. Calomiris

Fall 2021, Tuesdays and Thursdays, 8:30-10:00 am

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 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 reading is heavy in this class, and students taking the course must expect to spend a significant amount of time reading. To encourage a serious commitment to reading the course materials, the mid-term will test detailed knowledge of the readings. Emerging Financial Markets, by David Beim and Charles Calomiris, 2001 (EFM), is a background text for the course, which is provided in the electronic course packet. Other books we will use are available for purchase and in the library. Other readings and the case studies are available 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 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 November 9 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 December 9 and will be due by 5 pm on December 14. 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 11 am-1 pm Tuesdays in 801 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 course packet (except books).

September 7 and 9: Defining and Explaining Emergence.

* EFM, Chapters 1-3.


9/16 Mini-Case Debate (Two student teams) take pro and con positions on the Government and fiscal policy future of Brazil (focusing on a critical evaluation of the Alston, Melo, Mueller and Pereira’s book).

September 23 and 28: Financial repression, political foundations of banks, and foreign bank entry.

  Unnamed confidential document to be redacted and distributed to students.

9/23 Mini-Case Debate (Two student teams) considers India’s prospects for political and institutional changes, growth, and financial development (focusing on Acharya’s book).

September 30: Measuring Country Risk in EM Securities, and Contagion


October 5 and 7: Sovereign Bond Risk.


10/7 Mini-Case Debate (Two student teams) considers whether Ghana’s sovereign wealth plan is working and will be likely to work in the future.

October 12 and 14: Legal Foundations of Finance and Corporate Governance

* EFM, Chapters 4-5.
* Can a Stock Exchange Improve Corporate Behavior? Evidence from Firms’ Migration to Premium Listings in Brazil,” *Journal of Corporate Finance*, September 2012


**10/12 Mini-Case Debate: Is Chile currently experiencing a persistent reversal of its progress in its transition to successful economic, political, and social development?**

**Case Due 10/14: Thai Petrochemical Industry.**

**NO CLASS ON OCTOBER 19 or 21, as per Business School Schedule Restrictions.**

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


**Case Due 10/28: Dual Markets: The Case of China’s Currency.**
November 4 and November 9 (NO CLASS NOVEMBER 2): 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 and Stephen Haber, Fragile By Design, Chapters 4-6, 12-13.

>>>November 9: MID-TERM EXAMINATION IN CLASS (CLOSED-BOOK)<<<

November 11 and 16: A Detailed Look at Banking in Emerging markets.

* EFM, Chapter 7.


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


Case Due 11/11: Banco Itau.

Case Due 11/16: Kenya’s Equity Bank: The Real Thing?


* EFM, Chapter 8.


Case Due 11/23: Brahma/Antarctica.

November 30 and December 2: Effective Prudential Regulation


**Case Due 12/2: Peregrine Investment Holdings, Ltd.**


**December 9: 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.