Title: Financial Issues in Development Economics
Instructor: Randall Dodd

Time: Mondays, 6pm – 8:45pm
First day: September 11, 2006
Last day: December 4th or 11th, 2006

Course Summary

The challenge of economic development has come to focus more and more on the role of finance – both its failures in the recent past and its prospects for the future. In order to improve those prospects and prevent the recurring failures, the United Nations organized a global conference on "Finance for Development" in Monterrey, Mexico in March of 2002. That event produced a consensus statement on the need to improve financial arrangements for developing countries. That statement, and the research and policy discussions that have followed, will serve as background and as an organizing theme to the course. This gives the course a close connection to the ongoing economic research and policy discussions on the issues of financing development.

The course will prove a financial and economic analysis of the above policy issues. Although it is a policy courser, students should expect to learn a good deal of economics and finance in the process of learning about these development problems and policies. These will be important intellectual tools as the future policy discussions on development will likely continue to focus more and more on finance and thus require more knowledge of finance than in the past.

Course Organization

Course is broken down into 12 classes for the 12 weeks of the course. Some topics will carry over into the next class. This is intended as plan to help student keep **ahead** in their reading.

Sessions

1. Introduction and Overview of course

Background on Financing for Development Issues

- Background on the UN conference www.un.org/esa/ffd
+ Monterrey Consensus Statement www.un.org/esa/ffd/Monterrey Consensus.pdf
- Secretary General's Report to the U.N., August 2004, International Financial System
+ Secretary General's Report to the U.N. Summit, September 2005, Report
+ NGO Policy Recommendations to the UN, 2005
- UN World Economic and Social Survey, 2005
+ John Williamson on the Washington Consensus

2. International Investment: Capital Market Liberalization

Readings

+ Stiglitz, Capital Market Liberalization, Globalization and the IMF
+ Stiglitz, Capital Market Liberalization and Exchange Rate Regimes: Risk Without Reward

- Dani Rodrik, Capital Market Liberalization, Who Needs Capital-Account Convertibility?
- Alex Cobham, Capital Account Liberalization and Poverty
- Eswar Prasad, Kenneth Rogoff, Shan-Jin Wei and M. Ayhan Kose, Effect of Financial Globalization on Developing Countries: Some Empirical Evidence

+ Zahler, Robert, Moderating Fluctuations in Capital Flows to Emerging Market Economies

3. Developing Country Debt

Debt Burden, Debt Forgiveness & Bankruptcy procedures

Reading:

+ Kunibert Raffer, Debt Relief for Low Income Countries: Arbitration
+ Randall Dodd, "Primer: Sovereign Debt Restructuring" www.financialpolicy.org/dscprimers.htm
- John Nolan, FPF Special Policy Report 3, "Vulture Hedge Funds and Sovereign Debt" www.financialpolicy.org/dscreports.htm
- Frank Schroeder and Kathrin Berensmann, A proposal for a new International Debt Framework

+ C.P. Chandrasekhar, Jayati Gosh and Smitha Francis, SDRM: Debt Restructuring or Liquidation?

4. Developing Country Debt

Local Currency Debt and Market Inefficiency

Reading:

- Ricardo Hausmann and Barry Eichengreen, "Exchange Rates and Financial Fragility" (the original article on Original Sin)

+ Hausmann, Eichengreen and Panizza, Pain, Mystery and Redemption
+ Randall Dodd and Shari Spiegel, FPF Special Policy Report 9, "Up From Sin: Portfolio Approach to Financial Salvation" www.financialpolicy.org/dscreports.htm
+ Randall Dodd, 1989, "Risky Foundations of Developing Country Finance," www.financialpolicy.org/dodd1989.htm

5. Credit in Times of Crisis

Policy Mechanisms to Respond to Disruptions and Prevent Crises

Reading:

+ Randall Dodd, Financial Policy Brief 23, "Providing Credit in Times of Crisis" www.financialpolicy.org/dscbriefs.htm
+ Ariel Buira, Allocating SDRs to Increase International Financial Stability
+ Ariel Buira, Does the IMF Need More Financial Resources?
- Ricardo Caballero & Stavros Panageas, "Contingent Reserves Management: An Applied Framework." Central Bank of Chile. www.financialpolicy.org/financedev/caballero.pdf
- Stephany Griffith-Jones & José Antonio Ocampo, What Progress on International Financial Reform?
- Sahli Neftci, Options Pricing of Lines of Credit

6. Commodity Price Volatility and Trends

Risk Management and Market Price Stabilization

Reading:

- Randall Dodd, "What If Joseph Had Used Derivatives" forthcoming at www.financialpolicy.org/dscreports.htm

+ Randall Dodd, "Protecting Developing Economies From Price Shocks" www.financialpolicy.org/fpfspb18.htm

+ Eminent Persons' Report on Commodities

- Irfan Al Haque, Commodities as a Development Issue www.new-rules.org/docs/ffdconsultdocs/haque99.pdf

+ Irfan Al Haque, "Commodities under Neoliberalism: The Case of Cocoa" http://www.unctad.org/en/docs/gdsmdpbg2420041_en.pdf

+ World Bank paper on commodity price risk management, 2002

7. Capital Controls and Circuit Breakers

Capital Controls

Reading:

+ Dodd, Randall, FPF Primer on Capital Controls

+ Gerald Epstein, Ilene Grabel and K.S. Jomo, Capital Management Techniques in Developing Countries

+ Agosin and Ffrench-Davis, Managing Capital Inflows in Chile

- Kaplan and Rodrik, Did The Malaysian Capital Controls Work?
- Stephany Griffith-Jones, Regulatory Challenges For Source Countries Of Surges In Capital Flows
- Ilene Grabel, Capital Controls and Transaction Taxes

Circuit Breakers

+ Ilene Grabel, Trip Wires and Speed Bumps

- Ilene Grabel, Averting crisis? Assessing measures to manage financial integration in emerging economies

8. Financial Transaction Taxes

Transaction or "Tobin" Tax

+ Dodd, Primer on Transaction Tax

+ Dodd, Lessons for Tobin Tax Advocates

- Dodd, Manuscript: reply to Challenge articless
- Tobin, Eastern Economic Review

+ Spahn, On the Feasibility of a Transactions Tax on Foreign Exchange

- Baker, Pollin, Securities Transaction Tax
- Grabel, Currency Transaction Taxes: A brief assessment of opportunities and Limitations

- Karl Habermeier and Andrei A. Kirilenko, Securities Transaction Taxes and Financial Markets

9. Developing Country Financial Market Regulation

Prudential regulation for stability and growth

Reading:

+ Randall Dodd, FPF Special Policy Report 11, "Virtues of Prudential Regulation" www.financialpolicy.org/dscreports.htm
+ Jose Antonio Ocampo, Counter-cyclical Policy and Prudential Regulation
+ Liliana Rojas-Suarez, Domestic Financial Regulations in Developing Countries: Can they Effectively Limit the Impact of Capital Account Volatility?

Standards and Codes, and Basel II

Reading:

- Andrew Cornford, Key financial codes and standards: different views
- Benu Schneider, Issues In Implementing Standards and Codes
- Andrew Cornford, Basel II: The Revised Framework of June 2004
- Stephany Griffith-Jones and Avinash Persaud,
The Pro-Cyclical Impact Of Basle II On Emerging Markets And Its Political Economy www.financialpolicy.org/financedev/persaud.pdf

10. International Capital Markets and Derivatives Markets

Reading:

+ Randall Dodd, Special Policy Report 1, "Role of Derivatives in the East Asian Financial Crisis" www.financialpolicy.org/dscreports.htm
- Randall Dodd, "Derivatives, the Shape of International Capital Flows, and the Virtue of Prudential Regulation
- Randall Dodd, "The Consequences of Liberalizing Derivatives Markets"
+ Randall Dodd and Stephany Griffith-Jones, Special Policy Report 14, "ECLAC Report on Chilean Derivatives Market" www.financialpolicy.org/dscreports.htm

11. Inclusive Credit Policies for Developing Economies

Microfinance

Reading:

+ CGAP, Guidelines for Regulating Microfinance
+ CGAP, Legal Framework for Microfinance
- CGAP, Foreign Investment in MFI
- UN Financing for Development Office, Microfinance Overview
+ UN Blue Book with UNCDF, http://www.uncdf.org/bluebook/
- Asian Development Bank - Microfinance Conference

12. Inclusive Credit Policies for Developing Economies

Structured Finance and Private Investment in Infrastructure

Reading:

+ M. Camdeseus, "Financing Water for All"

+ Randall Dodd, memo on Financing Essential Services
http://www.financialpolicy.org/financedev/fpfwatermemo2004.pdf

13. Inclusive Credit Policies for Developing Economies

National Development Banks and other "inclusive" credit policies

Reading:

• United Nations, Office of Financing for Development, "National Development Banks: Financing for Development" www.un.org/esa/ffd/NDBs-DOCUMENT-100406%20clean.pdf

• Randall Dodd, Lessons for National Development Banks from the US

14. New Sources of Development Finance

Reading:

+ Mark McGillivray, Development Assistance and Development Finance
+ Lula initiative, Report