

Interdisciplinary Programmes

Academic year 2020-2021

Finance and Development

IA031 - Spring - 6 ECTS

Fridays 10h15 - 12h00

Course Description

The course will study the relationship between finance and economic development by focusing on the roles of domestic and international finance. It will cover the following topics: the role of the domestic financial sector and its impact on economic development and growth; the role of international private capital flows (foreign direct investment, portfolio investment, and international bank lending); the role and activities of the multilateral financial institutions; concessional lending, official development assistance, and debt relief.

> PROFESSOR

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> ASSISTANT

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Syllabus

Grading

There will be a mid-term exam and a final exam, each of which will count for 40% of the total grade. The remaining 20% will be based on the highest grade received in the two exams.

Tentative Program

This tentative program may be modified to make the course more interactive if class size and COVID allow.

February 26. Lecture 1 Introduction and Course Overview

This lecture will provide a broad overview of the course; it will discuss the different meanings of financial efficiency; and it will discuss the role of commercial banks and the rationale for bank regulation.

Required readings:

- James Tobin, "On the Efficiency of the Financial System," *Lloyd's Bank Review*, no. 153 (1984), 14–15 <https://sites.google.com/site/upanizza/finance-and-development>
- Frederic Mishkin, *The Economics of Money, Banking and Financial Markets*, Chapter 2 "An Overview of the Financial System" (on reserve at the library)

PART I: Domestic Finance

March 5-12. Lectures 2-3

The bright and the dark sides of finance

These lectures will discuss why finance may have an effect on economic growth, survey the empirical literature on the link between financial development and economic growth, and then assess the risks of too much finance

Required readings:

- Ross Levine 2005. "Finance and Growth: Theory and Evidence in: Philippe Aghion & Steven Durlauf (ed.), *Handbook of Economic Growth*, edition 1, volume 1, chapter 12, pages 865-934 Elsevier. <http://www.nber.org/papers/w10766>
- Ross Levine 2017 "In Defense of Wall Street" http://faculty.haas.berkeley.edu/ross_levine/papers/defense%20of%20wall%20street_post.pdf
- Simon Johnson "The Quiet Coup" *The Atlantic* <http://www.theatlantic.com/magazine/archive/2009/05/the-quiet-coup/7364/>
- Ugo Panizza, 2017. "Non-linearities in the Relationship between Finance and Growth," IHEID Working Papers 12-2017, <https://ideas.repec.org/p/gii/giihei/heidwp12-2017.html>
- Thomas Philippon and Ariell Reshef. 2013. "An International Look at the Growth of Modern Finance." *Journal of Economic Perspectives*, 27(2): 73-96. <https://www.aeaweb.org/articles?id=10.1257/jep.27.2.73>
- Hamid Boustanifar, Everett Grant, and Ariell Reshef, 2017. "Wages and human capital in finance: international evidence, 1970-2005," <https://ideas.repec.org/p/hal/cesptp/hal-01472400.html>

Optional readings:

- Jean Louis Arcand & Enrico Berkes & Ugo Panizza, 2015. "Too much finance?" *Journal of Economic Growth*, Springer, vol. 20(2), pages 105-148, <https://ideas.repec.org/a/kap/jecgro/v20y2015i2p105-148.html>
- Thomas Philippon and Ariell Reshef, 2012. "Wages and Human Capital in the U.S. Finance Industry: 1909--2006," *The Quarterly Journal of Economics*, vol. 127(4), pages 1551-1609. <https://ideas.repec.org/a/oup/qjecon/v127y2012i4p1551-1609.html>

Possible movie linked to these lectures:

- Inside Job [https://en.wikipedia.org/wiki/Inside_Job_\(2010_film\)](https://en.wikipedia.org/wiki/Inside_Job_(2010_film))

October 19-26. Lectures 4-5

The role of the state in finance

These lectures will discuss the rationale for public sector intervention in the financial sector, the pros and cons of state-owned banks, and the interaction between finance and politics

Required readings:

- Peter Montiel, *Macroeconomics in Emerging Markets*, Chapter 12, Financial Repression (on reserve at the library)
- Eduardo Levy-Yeyati, Alejandro Micco, and Ugo Panizza, 2007. "A reappraisal of State-Owned Banks," *Economia*, <http://ideas.repec.org/a/col/000425/008639.html> if the first link does not work try LMP at <https://sites.google.com/site/upanizza/finance-and-development>
- Eduardo Fernandez Arias, Ricardo Hausmann, and Ugo Panizza (2013) "Smart Development Banks and Productive Development Policies," Unpublished.

- Selected chapters (TBA) from Augusto de la Torre, Juan Carlos Gozzi, and Sergio L. Schumukler, 2017. *Innovative Experiences in Access to Finance: Market-Friendly Roles for the Visible Hand?* The book is available at <https://openknowledge.worldbank.org/bitstream/handle/10986/27529/9780821370803.pdf?sequence=2&isAllowed=y>

Optional readings:

- Carmen Reinhart and Belen Sbrancia (2011) "The Liquidation of Government Debt", NBER Working Paper 16893. <http://www.nber.org/papers/w16893.pdf>
- Jayati Ghosh, The Economic and Social Effects of Financial Liberalization: A Primer for Developing Countries http://www.un.org/esa/desa/papers/2005/wp4_2005.pdf

April 16: MIDTERM EXAMINATION

PART II: International Finance

April 23, 30 & May 7. Lectures 7-9

Balance of payment, capital flows, financial globalization, and external debt vulnerabilities.

These three lectures will discuss why countries may need (or not need) external financial resources, they will discuss different types of capital flows (including a discussion of FDIs), and the costs and benefits of financial globalization.

Required readings:

- Paul R. Krugman, Maurice Obstfeld, and Marc Melitz *International Economics: Theory and Policy*, 10th Edition Chapter 13 "National accounts and the balance of payments. National Income Accounting and the Balance of Payments" (on reserve at the library)
- Kose Prasad, Rogoff, and Wei (2006) "Financial Globalization: A Reappraisal" IMF WP <http://www.imf.org/external/pubs/ft/wp/2006/wp06189.pdf>
- Rodrik and Subramanian (2008) "Why did financial globalization disappoint?" http://www.wcfia.harvard.edu/sites/default/files/Rodrik_WhyDid.pdf
- Barry Eichengreen, Ricardo Hausmann and Ugo Panizza (2011) "Original Sin: The pain, the mystery and the road to redemption" <http://www.financialpolicy.org/financedev/hausmann2002.pdf>
- Ricardo Hausmann and Ugo Panizza (2011) "Redemption or Abstinence? Original Sin, Currency Mismatches and Counter Cyclical Policies in the New Millennium," *Journal of Globalization and Development*, vol. 2(1), pages 1-35, August. <http://ideas.repec.org/a/bpj/globdv/v2y2011i1n4.html>
- Laura Alfaro, 2014 "Foreign Direct Investment: Effects, Complementarities, and Promotion." Harvard Business School Working Paper, No. 15-006 <https://dash.harvard.edu/bitstream/handle/1/13350440/15-006.pdf?sequence=1>

Optional readings:

- Barry Eichengreen & Ricardo Hausmann & Ugo Panizza, 2007. "Currency Mismatches, Debt Intolerance, and the Original Sin: Why They Are Not the Same and Why It Matters," NBER Chapters, in: *Capital Controls and Capital Flows in Emerging Economies: Policies, Practices and Consequences*, pages 121-170 National Bureau of Economic Research, Inc. <https://ideas.repec.org/h/nbr/nberch/0150.html>
- Salvatore Dell'Erba, Ricardo Hausmann, and Ugo Panizza (2013) "Debt levels, debt composition, and sovereign spreads in emerging and advanced economies," *Oxford Review of Economic Policy*, vol. 29(3), pages 518-547. <http://ideas.repec.org/a/oup/oxford/v29y2013i3p518-547.html>

May 14-21. Lectures 10-11

Sovereign Debt

This lecture will first survey the economic literature on sovereign debt, then discuss policies aimed at increasing the efficiency of the sovereign debt market, and discuss the Odious debt problem.

Required readings:

- Ugo Panizza, Federico Sturzenegger, and Jeromin Zettelmeyer (2009) "The Economics and Law of Sovereign Debt and Default," *Journal of Economic Literature*, vol. 47(3), pages 651-98.
<http://ideas.repec.org/a/aea/jeclit/v47y2009i3p651-98.html>
- Ugo Panizza (2013) "Do We Need a Mechanism for Solving Sovereign Debt Crises? A Rule-Based Discussion," IHEID Working Papers 03-2013 <http://ideas.repec.org/p/gii/giihei/heidwp03-2013.html>
- Mitu Gulati and Ugo Panizza (2020) "Alternative Solutions to the Odious debt problem", Annals of the Fondazione Einaudi <https://www.annalsfondazioneinigiainaui.it/wp-content/uploads/2020/11/2020-1-008-gulati.pdf>

Optional readings:

- Barry Eichengreen & Ugo Panizza, 2014. "A Surplus of Ambition: Can Europe Rely on Large Primary Surpluses to Solve its Debt Problem?," NBER Working Papers 20316, National Bureau of Economic Research, Inc. The paper can be downloaded here: <https://ideas.repec.org/p/nbr/nberwo/20316.html>
- Jeromin Zettelmeyer & Eike Kreplin & Ugo Panizza, 2017. "Does Greece Need More Official Debt Relief?," Working Paper Series WP17-6, Peterson Institute for International Economics. The paper can be downloaded here: <https://ideas.repec.org/p/iie/wpaper/wp17-6.html>
- Eduardo Borensztein, Eduardo Levy Yeyati and Ugo Panizza (2006) *Living with Debt*, Chapter 1 <http://ideas.repec.org/p/idb/brikps/79419.html>
- Eduardo Borensztein, Eduardo Levy Yeyati and Ugo Panizza (2006) *Living with Debt*, Chapter 9 <http://ideas.repec.org/p/idb/brikps/79419.html>

May 28. Lecture 12

The International Financial Institutions

This lecture will survey the history and the mandate of the main international financial institutions (IMF, World Bank, and Regional Development Banks) and discuss proposals for reforming these institutions.

Required readings:

- Ngair Woods, 2006. *The Globalizers*, Cornell University Press Chapters 1-2-3 and 7. (on reserve at the library)
- Liam Clegg, 2013. *Controlling the World Bank and the IMF*, Palgrave Macmillian Chapters 1-2-3 and 6. (on reserve at the library)
- Kenneth Rogoff, The Sister at 60, *The Economist* <http://www.economist.com/node/2941379> Ugo Panizza, 2015. "Debt Sustainability in Low-Income Countries - The Grants versus Loans Debate in a World without Crystal Balls," Working Papers P120, FERDI.
<https://ideas.repec.org/p/fdi/wpaper/2007.html>
- Helmut Reisen 2017. On the G20 call for MDB Balance-Sheet 'Optimization' <http://blog.t20germany.org/2017/04/11/on-the-g20-call-for-mdb-balance-sheet-optimization/>

Optional readings:

- International Financial Institution Advisory Commission, 2000. *Report of the International Financial Institution Advisory Commission*, Washington;
- John Williamson, 2000. *The Role of the IMF: A Guide to the Reports*, IIE, Washington

Possible movie linked to this lecture:

- Life and Debt <http://www.lifeanddebt.org/>

June 4: FINAL EXAMINATION