

Finance and Development

ECON 240 and 211A
MW 12:30–1:50PM
300 Economics Building
weber.ucsd.edu/~bleakley/240

Instructor:
Hoyt Bleakley
bleakley@ucsd.edu
215 Economics Building

Course Description

What role does capital accumulation and allocation play in the process of development? Why doesn't capital flow to poor countries? Why does it sometimes fly out? A mix of economic models and econometric studies.

Readings

You are expected to read all of the starred articles listed below. Non-starred articles will be discussed in class, and it is suggested that you at least peruse them. The non-starred books listed (without specific pages) are for your reference. Parentheticals following the references contain hyperlinks to downloadable versions of the cited works. See the course web page for the on-line version of the syllabus.

Requirements

There will be a few assignments throughout the course: a "referee report" on a designated paper, a data-analysis exercise, and several problem sets. Assignments will count for 30% of your grade. There will also be a final exam, which will count for 70% of your grade.

Outline

Part I: The Long Term

I.A Capital Accumulation

* Lucas, R. E. (1990). "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review*, 80:2 (May), pp. 92–96. (JSTOR)

Barro, R. J. and X. Sala-i-Martin. "Convergence." *Journal of Political Economy*. 100:2 (April 1992), pp. 223–51. (JSTOR)

* Klenow, P. and A. Rodriguez C., "The Neoclassical Revival in Growth Economics: Has it Gone Too Far?" NBER *Macroeconomics Annual*, 1997.

Hall, R. and C. Jones. "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, February 1999, 114:1, pp. 83–116.

* Young, A. "The Tyranny of Numbers," *Quarterly Journal of Economics*, 110:3 (1995), pp. 641–80. (JSTOR)

Young, A. "Lessons from the East Asian NICs: A contrarian view," *European Economic Review*, vol. 38 (April 1994), pp. 964-73.

* Henry, P. "Capital Account Liberalization, The Cost of Capital, and Economic Growth", *American Economic Review*, 93:2 (May 2003), pp. 91-96.

* Gourinchas, P.O. and O. Jeanne (2002). "The Elusive Gains from International Financial Integration." National Bureau of Economic Research Working Paper No. 9684, May. (NBER)

* Banerjee, A., E. Duflo and K. Munshi. "The (Mis)allocation of Capital." *Journal of the European Economic Association*. 1:2-3 (April-May 2003), pp. 376-86. (author)

I.B Intermediation

* King, R. and R. Levine (1993). "Finance and Growth: Schumpeter Might be Right." *Quarterly Journal of Economics*, 108:3 (August), pp. 717-37. (JSTOR)

* Rajan, R. and L. Zingales, "Financial Dependence and Growth," *American Economic Review*, June 1998. (JSTOR)

Levine, R. (2003). "More on Finance and Growth: More Finance, More Growth?" *Federal Reserve Bank of St. Louis Review*, 85:4 (July), pp. 31-46.

Galindo, A., A. Micco, and G. Ordoñez. "Financial Liberalization and Growth." in "Financial Globalization: a Blessing or a Curse?", World Bank conference, May 2002. (WB)

* Wurgler, J. (2000). "Financial Markets and the Allocation of Capital," *Journal of Financial Economics*, October. (author)

Demirguc-Kunt, A. and R. Levine (2001). "Bank-Based and Market-Based Financial System: International Comparisons", published in *Financial Structure and Economic Growth: A Cross-Country Comparison of Bank, Markets, and Development*. MIT Press: Cambridge, Mass. (author)

Raddatz, C. (2003). "Liquidity Needs and Vulnerability to Financial Underdevelopment," MIT manuscript (January).

Freixas, X. and J.-C. Rochet (1998). *Microeconomics of Banking*. MIT Press: Cambridge, Mass.

I.C Corporate Governance

* Schleifer, A. and R. Vishny (1995). "A Survey of Corporate Governance". *Journal of Finance*, June, 1997.

La Porta, R., F. Lopez-de-Silanes, A. Schleifer, and R. Vishny (2000). "Investor Protection and Corporate Governance" *Journal of Financial Economics*, October. (author)

* Gibson, M. S. (1999). "Is Corporate Governance Ineffective in Emerging Markets?" Board of Governors of the Federal Reserve System: Finance and Economics Discussion Series, 1999-63 (November). (FRB-BOG)

Pesek, Wm. Jr. (2002) "When Pots Call Kettles Black" Bloomberg News Service, bloomberg.com, July 26.

* Dyck, A. and L. Zingales (2002). "Private Benefits of Control: An International Comparison" National Bureau of Economic Research Working Paper No. 8711 (January). (NBER)

I.D Contracts and Law

* Haber, S. (1996), "The Efficiency Consequences of Institutional Change: Financial Market Regulation and Industrial Productivity in Brazil, 1866-1943". National Bureau of Economic Research Working Paper No. H94, November. (NBER)

* Mauro, P. "Corruption and Growth," *Quarterly Journal of Economics*, August 1995. (JSTOR)

* La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny (1998) "Law and Finance". *Journal of Political Economy*, December. (author) (JSTOR)

Cowan K. and A. Neut (2002). "Intermediate Goods, Institutions and Output per Worker." Chapter 2 of *Inquiries into the Behavior of Emerging-Market Firms*, K. Cowan, Doctoral Dissertation, MIT Dept. of Economics.

Johnson, S. and A. Shleifer (1999). "Coase v. the Coasians." National Bureau of Economic Research Working Paper No. 7447, December. (NBER) (author)

I.E The Very Micro

* Townsend, R. (1995). "Financial Systems in Northern Thai Villages" *Quarterly Journal of Economics*, 110:4, pp. 1011-46 (November). (JSTOR)

Townsend, R. (1994) "Risk and Insurance in Village India" *Econometrica*, v. 62, no. 3. (May), pp. 539-591. (JSTOR)

* Galor, O. and J. Zeira. (1993) "Income Distribution and Macroeconomics," *Review of Economic Studies*, v. 60, January, pp. 35-52. (JSTOR)

Banerjee, A. and A. Newmann. (1993) "Occupational Choice and the Process of Development," *Journal of Political Economy*, 101:2 (April), pp. 274-298. (JSTOR)

de Soto, H. *El Otro Sendero: La Revolución Informal*. Editorial Sudamericana: Buenos Aires. 1987.

de Soto, H. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books. 2002.

* Murdoch, J. "The Microfinance Promise," *Journal of Economic Literature*, XXXVII (December 1999), pp. 1569-1614.

Conning, J. "Outreach, Sustainability and Leverage in Monitored and Peer-Monitored Lending", *Journal of Development Economics*, Vol. 60 (1999), pp. 51-77

Khandker, S. and M. Pitt. "The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?" *Journal of Political Economy*, Vol. 106 no. 5 (1998). (JSTOR)

Part II: The Short Term (Financial Crises)

II.A General

Kindelberger, C. (2000). *Manias, Panics, and Crashes: A History of Financial Crises*. Wiley & Sons: New York. Fourth Edition.

* Dornbusch, R. (2001) "A Primer on Emerging Market Crises," MIT mimeo. January. (author)

* Eichengreen, B. and R. Hausmann (1999). "Exchange Rate and Financial Fragility," National Bureau of Economic Research Working Paper No. 7418 (November). (NBER)

Lipsey, R. (2001). "Foreign Direct Investors in Three Financial Crises," National Bureau of Economic Research Working Paper No. 8084 (January). (NBER)

II.B Mispricing

* Blanchard, O. and S. Fischer. "Lectures on Macroeconomics" MIT Press: Cambridge, Mass. 1993. Chapter 5.

* Shleifer, A. and R. Vishny. "The Limits of Arbitrage," *Journal of Finance*, 52:1 (April 1989), pp. 269-88.

II.C Illiquidity

* Diamond, D. and P. Dybvig. "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 1983, pp. 401-19. (JSTOR)

* Jacklin, C. J. (1993). "Market Rate versus Fixed Rate Demand Deposits," *Journal of Monetary Economics*, 32:2 (November 1993), pp. 237-58.

* Wallace, N. "Another Attempt to Explain an Illiquid Banking System: The Diamond and Dybvig Model With Sequential Service Taken Seriously" *Federal Reserve Bank of Minneapolis Quarterly Review*. Fall 1988. (FRBM)

Green, E. J, P. Lin (2000). "Diamond and Dybvig's Classic Theory of Financial Intermediation: What's Missing?" *Federal Reserve Bank of Minneapolis Quarterly Review* Vol. 24, no. 1, pp. 3-13. (FRBM)

* Morris, S. and H. S. Shin (2000). "Rethinking Multiple Equilibria in Macroeconomic Modelling," NBER *Macroeconomics Annual*, (March).

Radelet, S. and J. Sachs. "The East Asian Financial Crisis: Diagnosis, Remedies, Prospects," *Brookings Papers on Economic Activity*1, pp. 1-90.

* Chang, R. and A. Velasco. "Financial Crises in Emerging Markets: A Canonical Model," Working Paper 98-10, Federal Reserve Bank of Atlanta, July 1998. (FRBA)

* Roubini, N. (1999). "Comments on 'Illiquidity and Crises in Emerging Markets: Theory and Policy'," NBER *Macroeconomics Annual*, (March).

* Bleakley, H. and K. Cowan, "Maturity Mismatch on the Pacific Rim: Crises and Corporations in East Asia and Latin America." UCSD mimeo, 2003.

* Caballero, R. and A. Krishnamurthy (2001). "A Dual Liquidity Model for Emerging Markets," *American Economic Review*, May 2002. (author)

II.D Insolvency

* Townsend, R. "Optimal Contracts and Competitive Markets with Costly State Verification," *Journal of Economic Theory*, vol. 22 (1979), pp. 599–617.

Stiglitz J.E. and A. Weiss. "Credit Rationing and Markets with Imperfect Information," *American Economic Review*, June 1981, vol. 71, pp. 393–411. (JSTOR)

* Bernanke, B. and M. Gertler, "Agency Costs, Net Worth, and Business Cycle Fluctuations," *American Economic Review*, vol. 79 (1989), pp. 14–31.

Kiyotaki, N. and J. Moore, "Credit Cycles," *Journal of Political Economy*, April 1997.

* Krugman, P. "Analytical Afterthoughts on the Asian Crisis," web page, (author).

* Bleakley, H. and K. Cowan, "Corporate Dollar Debt and Devaluation: Much Ado About Nothing?" working paper #02-5, Federal Reserve Bank of Boston, 2002. (FRBB)

Forbes, K. (2002). "How do Large Depreciations Affect Firm Performance?" *IMF Staff Papers*, vol. 49, pp. 214–238. (author)

II.E Agency Problems

* McKinnon, R. and H. Pill (1998). "The Overborrowing Syndrome: Are East Asian Economies Different?" In R. Glick (ed.), *Managing capital flows and exchange rates: Perspectives from the Pacific Basin*. Cambridge; New York and Melbourne, Cambridge University Press: 322–55.

* Krugman, P. (1998). "Bubble, Boom, Crash: Theoretical Notes on Asia's Crisis," MIT mimeo, January.

* Allen, F. and D. Gale (2000). "Bubbles and Crises," *Economic Journal*, 110:460 (January 2000), pp. 236–55.

Johnson, S., P. Boone, A. Breach, and E. Friedman. "Corporate Governance in the Asian Financial Crisis," *Journal of Financial Economics*, 2000. (author)

II.F Financial Contagion

* Forbes, K. and R. Rigobon (2002). "No Contagion, Only Interdependence: Measuring Stock Market Comovements," *Journal of Finance*, LVII (October), pp. 2223–2261. (author)

Allen, F. and D. Gale. "Financial Contagion," *Journal of Political Economy*, 2000, pp. 1–33.

ECON 211A/240 Problems Set 2

Update of the Syllabus

1. The following articles will be discussed in class, but are no longer required reading:

Jacklin, C. J. (1993). "Market Rate versus Fixed Rate Demand Deposits," *Journal of Monetary Economics*, 32:2 (November 1993), pp. 237-58.

Wallace, N. "Another Attempt to Explain an Illiquid Banking System: The Diamond and Dybvig Model With Sequential Service Taken Seriously" *Federal Reserve Bank of Minneapolis Quarterly Review*. Fall 1988.

Morris, S. and H. S. Shin (2000). "Rethinking Multiple Equilibria in Macroeconomic Modelling," NBER *Macroeconomics Annual*, (March).

Chang, R. and A. Velasco. "Financial Crises in Emerging Markets: A Canonical Model," Working Paper 98-10, Federal Reserve Bank of Atlanta, July 1998. (But do read Roubini's comments.)

2. The following paper was inadvertently left off the syllabus. It will be covered in class, but is not required reading.

Cooper and John (1998). "Coordinating Coordination Failures in Economics," *Quarterly Journal of Economics*.

3. It is unlikely that we will cover sections II.E and II.F in great detail ($\approx \frac{1}{2}$ class), so the following articles are also not required reading:

McKinnon, R. and H. Pill (1998). "The Overborrowing Syndrome: Are East Asian Economies Different?" In R. Glick (ed.), *Managing capital flows and exchange rates: Perspectives from the Pacific Basin*. Cambridge; New York and Melbourne, Cambridge University Press: 322-55.

Allen, F. and D. Gale (2000). "Bubbles and Crises," *Economic Journal*, 110:460 (January 2000), pp. 236-55.

Forbes, K. and R. Rigobon (2002). "No Contagion, Only Interdependence: Measuring Stock Market Comovements", *Journal of Finance*, LVII (October), pp. 2223-2261.

(But do read the summary by Krugman.)

12 November, 2003.