INTERNATIONAL FINANCE AND THE EMERGING MARKETS

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Course description

This course deals with the implications of financial globalization for emerging-market countries, and specifically with the pros and cons of attracting direct investment and portfolio flows; the peculiarities of global capital movements, such as “contagion” and “sudden stop” phenomena; the roles of credit rating agencies and the IMF in facilitating access to international lenders and investors; the importance of currency and maturity mismatches; the effectiveness (or not) of controls on capital flows; and the relationship between capital flows, overindebtedness and sovereign debt defaults.

Our readings consist of the latest empirical and policy writings on the various topics, as opposed to theoretical papers or classical works from earlier years, and they are drawn from a variety of authors around the globe that are doing state-of-the-art research. By the end of the course, you will have an in-depth understanding of the international financial problems that developing countries should strive to avoid – and of the major policy implications that follow.

The learning objective of this course, which will be tested in various ways, is familiarity with the essential vocabulary, analytical tools, theoretical concepts, practical applications, institutional features, and economic policy aspects of international finance relevant to the emerging markets.

Course requirements and grading

During most of each class, I will cover the main ideas conveyed by the assigned readings, and during the remainder I will answer questions and guide a class discussion of the topic at hand. In order to reap the benefits from the course, you should plan on attending every class and on doing all of the required readings before coming to class. To encourage reading ahead of class, there will be a few “surprise” quizzes handed out during the semester, at the start of some of the classes. There is no need to purchase any books; all the required readings are posted on Blackboard.
The other course requirements are two exams to take place on Thursday, March 4 and April 22, respectively, and one essay of a *maximum length of 2,000 words*, excluding footnotes and the bibliography, written on one of the three topics specified at the end of this syllabus, to be delivered via e-mail by Noon on Friday, April 30th at the latest. The quizzes (the three best out of four) will contribute to 10% of the final grade; the exams will count for 25% each; and the essay will account for the final 40%.

You will compete for grades with your classmates, and to minimize grade inflation, grades are subject to the binding constraint that no more than one-third (1/3) of the class will receive an “A” or “A-” letter grade – no matter how high or low is the average score of the class in the individual assignments. If you score close to the class mean/median – whatever that turns out to be – you will be assigned a grade in the “B” range.

Being a member of the AU academic community entitles each of us to a wide degree of freedom in the pursuit of scholarly interests. With that freedom, however, comes a responsibility to uphold the high ethical standards of scholarly conduct. By registering in this course, you acknowledge your awareness of the Academic Integrity Code, and are obliged to become familiar with the rights and responsibilities therein. All work done in class or outside of class, whether oral or written, is governed by its provisions. Academic violations include, but are not limited to, plagiarism, inappropriate collaboration, dishonesty in examinations whether in class or take-home, dishonesty in papers, work done for one course and submitted for another, deliberate falsification of data, interference with other students’ work, and copyright violations. The adjudication process and possible penalties are listed in AU’s Academic Integrity Code, available on the AU website (at [www.american1.edu/academics/integrity/code.htm](http://www.american1.edu/academics/integrity/code.htm)).

In the event of a declared pandemic (influenza or other communicable disease), American University will implement a plan for meeting the needs of all members of the university community. Should the university be required to close for a period of time, we are committed to ensuring that all aspects of our educational programs will be delivered to you. These may include altering and extending the duration of the traditional term schedule to complete essential instruction in the traditional format and/or use of distance instructional methods. Specific strategies will vary from class to class, depending on the format of the course and the timing of the emergency. I will communicate class-specific information to you via AU e-mail and Blackboard, and you must inform me immediately of any absence due to illness. You are responsible for checking your AU e-mail regularly and for keeping yourself informed of emergencies. In the event of a declared pandemic or other emergency, you should refer to the AU Website ([http://www.american.edu/emergency/](http://www.american.edu/emergency/)) and the AU information line at (202) 885-1100 for general university-wide information, as well as contact me and your respective dean’s office for course and school/college-specific information.
**Schedule and readings**

**January 14: Background on financial globalization, Part 1**

*Required readings:*

**January 21: Background on financial globalization, Part 2**

*Required readings:*

**January 28: Direct investment flows**

*Required readings:*
February 4: Bank and bond finance

Required readings:

February 11: Contagion effects

Required readings:

February 18: Sudden stops

Required readings:
February 25: Role of credit rating agencies

Required readings:

March 4: Mid-term Exam: Multiple-choice questions

March 11: No class meeting: Spring Break

March 18: Role of the IMF

Required readings:

March 25: Mismatches

Required reading:
April 1: Capital controls

Required readings:

April 8: Indebtedness and overindebtedness

Required readings:

April 15: Sovereign defaults

Required reading:
1) Federico Sturzenegger and Jeromin Zettelmeyer, Debt Defaults and Lessons from a Decade of Crises (Cambridge, MA: MIT Press, 2006), Chapters 1 and 2.

April 22: Final Exam: Multiple-choice questions

April 30: E-mail versions of essay due by Noon
Instructions for the Essay Assignment

Choose from among the following three topics for your 2,000-word paper (excluding any footnotes, bibliography, tables or charts), which must demonstrate the application of concepts learned in class and should include citations to a bibliography of at least five (5) scholarly, academic or official sources beyond those listed in this syllabus. Citations to articles or other materials from newspapers, magazines (e.g., “The Economist” and “Foreign Affairs”), NGO websites and blogs, while permitted, do not count toward the minimum. Please use Word, specify single-line spacing, include your name in the file name, and send the essay via e-mail to me by the due date and time.

1. Your boss, the newly appointed Minister of Finance, suggests that since funding is so plentiful and interest rates are so low in the international capital markets relative to conditions prevailing in the domestic financial market, this may be a great time to finance the 2010 budget deficit abroad rather than at home. Write him a memorandum explaining why “not all that shines is gold.”

2. Your boss, the new Economic Advisor to the President, has been charged with coming up with and coordinating the implementation of a plan of economic and other reforms to make the economy less vulnerable to “contagion effects” and the fallout from a “sudden stop,” such as the country endured during late 2008 and early 2009. Write her a memorandum detailing which structural and policy reforms should receive top government priority during the 2010-2012 period.

3. Your boss, the President of the Central Bank, is leaning in favor of liberalizing the country’s regulatory framework governing capital inflows starting in 2010, but is unsure whether to favor foreign direct investors versus foreign portfolio lenders and investors – or whether to put out the welcome mat to any and all. Write him a memorandum arguing against a discriminatory, paternalistic approach to capital-account liberalization.