FINANCIAL ISSUES IN LATIN AMERICA

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Course description

Systemic financial problems – fiscal, banking, currency and debt crises, often in highly damaging combination – have loomed large in the economic history of Latin America. Indeed, it seems that every year some Latin American country or other manages to get itself into serious financial trouble, the latest one being the Dominican Republic (2003-04). What explains the prevalence of macroeconomic instability in Latin America? The course attempts to answer this question by analyzing both fundamental and precipitating causes of Latin America’s recent financial crises, focusing on economic policy and institutional shortcomings (in the fiscal, monetary, banking and exchange-rate areas), as well as on other domestic and external forces that have combined to generate instability in the region’s economies and financial markets. We then use specific case studies to go more in depth into particular situations encountered in recent years. By the end of the course, students have an in-depth understanding of the financial problems that are being overcome and of those that are more structural in nature – and of the major policy implications that follow.

Course requirements and grading

The course has been updated, such that most readings now date to 2005 or 2006. During the first half of each class, Prof. Porzecanski will summarize the main ideas on the policy issue or case study of the day, and during the second half he will guide a class discussion of the topic at hand. In order to reap the benefits from the course, students should plan on attending every class – in fact, attendance will be taken – and on doing all of the required readings before coming to class, because credit will be given to students who answer the questions raised in class by other students or the professor. The other course requirements are one final exam to take place on Monday, December 11th; and one essay of a maximum length of 2,000 words, written on one of three topics specified at the end of this syllabus, to be delivered via e-mail by Monday, December 18th at the latest. Class attendance and the quantity and quality of class participation will contribute to 20% of the final grade; the final exam will count for 40%; and the essay will account for the final 40%.
Schedule and reading

September 11: The critical role of financial issues

Required readings:

September 18: Fiscal fundamentals

Required readings:

September 25: Monetary and exchange-rate policies

Required readings:

October 2: Monetary and exchange-rate policies, cont’d

Required readings:

**October 9: Banking crises**

*Required readings:*

**October 16: Role of capital flows**

*Required readings:*

**October 23: Case study: Local bond markets in Mexico and elsewhere**

*Required readings:*
October 30: Case study: Inflation targeting in Chile and Peru

Required readings:

November 6: No class meeting: Academic Holiday

November 13: Case study: The “hard” peg in Argentina

Required readings:

November 20: Case study: Banking crisis in Venezuela


November 27: Case study: Capital controls in Brazil and Chile

Required readings:
December 4: Case study: Debt defaults in Argentina and Uruguay

Required reading:

December 11: Final exam: True/False and Multiple-Choice questions

December 18: E-mail versions of essay due

Choose from among the following three topics for your 2,000-word paper, which must demonstrate the application of concepts learned in class and should include citations to a bibliography of at least five (5) academic or official studies beyond those listed in this syllabus.

1. Your boss, the Minister of Finance, believes that since interest rates are lower in the international capital market relative to those prevailing in the domestic capital market, now is the time to borrow abroad rather than at home. Write a memorandum explaining why “not all that shines is gold.”

2. Your boss, a senior IMF official responsible for Latin America, is wondering whether the Fund should insist that all countries in the region that have not done so already should now shift to an inflation targeting regime. Before making this decision, however, she wants to hear a contrarian view, so write a memorandum detailing the case against the universal adoption of inflation targeting in the region.

3. Your boss, the President of a Central Bank who is also the supervisor of the country’s banks, knows that there is a large bank that is losing money, and he wonders out loud whether he remembers everything that he must do to preserve the country’s financial stability before and after the bank in question comes knocking at his door. Write a memorandum detailing what he should be prepared to do in the months ahead.