



ECO013 - Financial System and Development

CH: 60 HS - Credits: 4

Semester: 202X.Y

Prerequisite: Macroeconomics 1 / Monetary Economy

OVERVIEW

This course aims to provide theoretical support for understanding the different patterns of development of the financial system and its changes over time. Based on this premise, the student will be able to make a critical analysis of the heterogeneity of financial system standards in developed and developing countries, the interference in long-term financing patterns, as well as the unfolding of crises such as the last global financial crisis (2007-2008), the finance on the green transition context, to current trends.

PROGRAM CONTENT:

I. FINANCING AND DEVELOPMENT THEORIES

I.1. NEOCLASSICAL THEORIES ON FINANCING AND DEVELOPMENT

Fry, M. J., CHAPTER. 2, pp. 20-38, Money, Interest, and Banking in Economic Development. Baltimore: Johns Hopkins University, 1995.

Eschenbach, Felix, Finance and Growth: A Survey of the Theoretical and Empirical Literature (March 11, 2004). Tinbergen Institute Discussion Paper No. TI 2004-039/2, Available at SSRN: <https://ssrn.com/abstract=530123> or <http://dx.doi.org/10.2139/ssrn.530123>

Aghion, Philippe, Peter Howitt and David Mayer-Foulkes. "The Effect Of Financial Development On Convergence: Theory And Evidence," Quarterly Journal of Economics, 2005

Ang, James, A Survey of Recent Developments of the Literature of Finance and Growth, Journal of Economic Surveys, 2008, Vol. 22, No. 3, pp. 536–576.

Cull, Robert, Asli Demirgüç-Kunt, and Justin Yifu Lin. "Financial Structure and Economic Development: A Reassessment." *The World Bank Economic Review* 27, no. 3 (2013), 470-475

Cull, Robert, and Lixin Colin Xu. "Job growth and finance: are some financial institutions better suited to early stages of development than others?." World Bank Policy Research Working Paper Series, Vol (2011).

Cihak, Martin, Asli Demirgüç-Kunt, Erik Feyen, and Ross Levine. "Benchmarking financial systems around the world." *World Bank Policy Research Working Paper* 6175 (2012).



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Grabel, I., "Financial Markets, the State and Economic Development: Controversies within Theory and Policy," *International Papers in Political Economy*, 1996, 3(1), **read only p. 1 - middle of p. 12.**

Levine, Ross. "Financial Development and Economic Growth: Views and Agenda." *Journal of Economic Literature* 35, no. 2 (1997): 688-726. <http://www.jstor.org/stable/2729790>.

Rajan, Raghuram and Zingales, Luigi, (2003), *The great reversals: the politics of financial development in the twentieth century*, *Journal of Financial Economics*, 69, issue 1, p. 5-50.

Rudiger Dornbusch & Alejandro Reynoso, 1989. "Financial Factors in Economic Development," NBER Working Papers 2889, National Bureau of Economic Research, Inc.

World Bank, "Rethinking the Role of the State in Finance," *Global Development Financial Report 2013*, Washington DC, World Bank **read chapters 1 and 5.**

Optional:

Mishkin, F., *The Next Great Globalization: How Disadvantaged Nations Can Harness Their Financial Systems to Get Rich*, Princeton University Press, 2006.

Patrick, H. T., "Financial Development and Economic Growth in Underdeveloped Countries." *Economic Development and Cultural Change*, 1965 October, XIV(1), pp. 174-189.

Goldsmith, R., pp., 44-48, *Financial structure and development*, New Haven: Yale University. Press, 1969.

Fry, M. J., "Saving, Investment, Growth and the Cost of Financial Repression." *World Development*, 1980, 8:317-327.

Gurley, J. G. and E. S. Shaw, "Financial Structure and Economic Development." *Economic Development and Cultural Change*, 1967, 15(3), pp. 257-268;

Shaw, E. S., *Financial Deepening in Economic Development*. New York: Oxford University, 1973; Shaw, E. S., *Money and Capital in Economic Development*, Washington, DC: Brookings Institution, 1973.

McKinnon, R., *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy*. Baltimore: Johns Hopkins University, 1991.

McKinnon, R. I. and D. J. Mathieson, "How to Manage a Repressed Economy." *Princeton Studies in International Finance* No. 145, 1981.



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Arestis, P. and Demetriades, P., (1997) "Financial Development and Economic Growth: Assessing the Evidence", *The Economic Journal*, 107, 783-799.

Arestis, P. and Demetriades, P., (1999) "Finance and Growth: Institutional Considerations, Financial Policies and Causality", *Zagreb International Review of Economics and Business*, 2, 37-62.

Arestis, P., Demetriades, P. and Luintel, K., (2001) "Financial Development and Economic Growth: The Role of Stock Markets", *Journal of Money, Credit and Banking*, 33, 16-41.

Baltagi, B., Demetriades, P. and Law, S.H. (2007) "Financial Development, Openness and Institutions", *University of Leicester Discussion Paper in Economics*, 07/5.

Barajas, A; Chami, R.; Yousefi, S, R. 2013. "The Finance and Growth Nexus Re-Examined; Do All Countries Benefit Equally?," *IMF Working Papers 13/130, International Monetary Fund.*

Diaz-Alejandro, C. "Goodbye Financial Repression, Hello Financial Crash," *Journal of Development Economics* 19, 1985: 1-24

Hein, E.; Finance-dominated capitalism and re-distribution of income: a Kaleckian perspective, *Cambridge Journal of Economics*, Volume 39, Issue 3, 1 May 2015, Pages 907–934.

Gerschenkron, A., ch. 1 and postscript, *Economic backwardness in historical perspective. Cambridge, MA: Harvard University Press, 1962.*

Gabel, I., "Financial Systems and Economic Development in the 21st Century: Are we all Keynesian yet? in Arestis, P. e Sawyer, M. (ed.) *21st Century Keynesian Economics*, Palgrave Macmillan, 2010.

Gabel, Ilene. "Finance, development and social economics in view of the global crisis." In *The Elgar Companion to Social Economics*, edited by John B. David and Wilfred Dolfsma, 566-90. 2nd ed., 2015, Cheltenham: Edward Elgar.

Gabel, I. "Speculation-led economic development: toward a post-Keynesian interpretation of financial liberalization programs in the third world. *International Review of Applied Economics*, 1995, 9(2).

Krieckhaus, Jonathan, (2002), *Reconceptualizing the Developmental State: Public Savings and Economic Growth, World Development*, 30, issue 10, p. 1697-1712.

Stiglitz, J. *Government Failure vs. Market Failure: principles of regulation*, in E. Balleissen, and D. Moss (eds.) *Government and Markets: toward a new theory of regulation*, Cambridge University Press, 2010.

Weller, Christian and Ghazal Zulfiqar, "Financial Market Diversity and Macroeconomic Stability, PERI Working Paper No. 332, August 2013. [C] Please also recall the points made about different types of financial systems

II. EVALUATION AND CLASSIFICATION OF NATIONAL FINANCIAL SYSTEMS



3

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Zysmam, J., 1983, *Governments, Markets and Growth*, Ithaca & London: Cornell University Press, cap. 2, pp. 55 – 95.

Allen, et al., Franklin, (2010), How Important Historically Were Financial Systems for Growth in the U.K., U.S., Germany, and Japan?, Working Papers, University of Pennsylvania, Wharton School, Weiss Center.

Fohlin, C. "Financial Systems and Economic Development in Historical Perspective," *Emory Economics* 1415, Department of Economics, Emory University (Atlanta).

Vitols, Sigurt (2001) : *The origins of bank-based and market-based financial systems: Germany, Japan, and the United States*, WZB Discussion Paper, No. FS I 01-302

Stiglitz, J. 1989, "Financial markets and development," *Oxford Review of Economic Policy*, 5(4), pp. 55-68.

Grabel, I. *Financial Architectures and Development: Resilience, Policy Space, and Human Development in the Global South*, Political Economy Research Institute, Working Paper Series, 281, 2012.

Rodrik, D. "Second-Best Institutions," *American Economic Review*, American Economic Association, vol. 98(2), pages 100-104. 2008.

Singh, A. and B. Weisse, Emerging stock markets, portfolio capital flows and long-term economic growth: Micro and macroeconomic perspectives, *World Development*, 1998, 26(4), pp. 607-22.

Chandrasekhar, C.P. 2015. "Introduction: Development Banking in Comparative Perspective." In *Development Finance in BRICS Countries*, edited by Heinrich Böll Stiftung Foundation, 11-22. New Delhi: Heinrich Böll Stiftung Foundation.

Cihak, Martin & Demirguc-Kunt, Asli & Feyen, Erik & Levine, Ross, 2013. "Financial Development in 205 Economies, 1960 to 2010," *Journal of Financial Perspectives*, EY Global FS Institute, vol. 1(2), pages 17-36.

III. CAPITAL AND BANKING MARKET

Arestis, P., Demetriades, P., & Luintel, K. (2001). Financial Development and Economic Growth: The Role of Stock Markets. *Journal of Money, Credit and Banking* 33, pp. 16-41.

Stiglitz, Joseph, —*Capital market liberalization, economic growth, and instability*, *World Development*, 2000, 28(6), pp. 1075-1086.

Demirguc-Kunt, Ash and R. Levine, "Stock Market Development and Financial Intermediaries: Stylized Facts," *World Bank Economic Review*, May 1996, 10(2), pp. 291-332.

Demirgüç-Kunt, A. and R. Levine (2001b), "Bank-Based and Market-Based Financial Systems: Cross-Country Comparisons", In: *Financial Structure and Economic Growth: A CrossCountry Comparison of Banks, Markets, and Development*, Eds: A. Demirguc-Kunt and R. Levine. Cambridge, MA: MIT Press: 81-140.

O'Sullivan, M. What Opportunity is Knocking? Regulating Corporate Governance in the USA, in E. Balleissen, and D. Moss (eds.) *Government and Markets: toward a new theory of regulation*, Cambridge University Press, 2010.



4

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Lazonick, W. and O'Sullivan, M. Maximizing shareholder value: a new ideology for corporate governance, *Economy and Society* Volume 29 Number 1 February 2000: 13–3

Levine, R. and S. Zervos, "Stock Markets, Banks and Economic Growth," *American Economic Review*, June 1998, 88(3), pp. 537-58.

Levine, R. "Stock markets, economic development, and capital control liberalization". *Investment Company Institute Perspective* 3, 45-56. 1997.

Singh, A., "The stock market and economic development: Should developing countries encourage stock markets?" *UNCTAD Review*, 1993, no. 4, pp. 1-28.

Grabel, I., *Assessing the impact of financial liberalization on stock market volatility in selected developing countries*, *Journal of development studies*, 1995, pp. 903-17.

Eugenio Cerutti & Catherine Koch & Swapan-Kumar Pradhan, 2020. "Banking across borders: Are Chinese banks different?," *BIS Working Papers 892*, Bank for International Settlements.

Lane, Philip, and Gian-Maria Milesi-Ferretti, 2017. *International Financial Integration in the Aftermath of the Global Financial Crisis*. IMF Working Paper WP/17/115

Kriekhaus, Jonathan. "Reconceptualizing the Developmental State: Public Savings and Economic Growth." *World Development* 2002.

Giordano, T & Ruiters, M. (2016) Closing the development finance gap in post-conflict and fragile situations: What role for development finance institutions?, *Development Southern Africa*, 33:4, 562-578

World Bank. 2015. *Global Financial Development Report 2015/2016 : Long-Term Finance*. Global Financial Development Report;. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/22543> License: CC BY 3.0 IGO."

PS: Other references will be suggested during the course!

IV. SPECIAL TOPICS ON FINANCIAL SYSTEM AND DEVELOPMENT

4.1) FINANCIAL REGULATION AND SUPERVISION – RECENT TRENDS

- "World Bank. 2020. *Global Financial Development Report 2019/2020 : Bank Regulation and Supervision*

a Decade after the Global Financial Crisis. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/32595> License: CC BY 3.0 IGO.”

- Wooldridge, P. Implications of financial market development for financial stability in emerging market economies. Note submitted to the G20 International Financial Architecture Working Group. BIS. Available at: <https://www.bis.org/publ/othp32.pdf>
- James R. Barth & Gerard Caprio & Ross Levine, 2013. "Bank regulation and supervision in 180 countries from 1999 to 2011," Journal of Financial Economic Policy, Emerald Group Publishing, vol. 5(2), pages 111-219, May.



5

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- Pinheiro, Fernando Antonio Perrone, Savóia, José Roberto Ferreira, & Securato, José Roberto. (2015). Basel III: Impact on Banks in Brazil. Revista Contabilidade & Finanças, 26(69), 345-361. Epub November 10, 2015. <https://dx.doi.org/10.1590/1808-057x201500720>

4.2) FINANCIAL DEVELOPMENT, ECONOMIC GROWTH AND INEQUALITY.

- Emerson Erik Schmitz & Thiago Christiano Silva, 2020. "Financial Intermediation, Human Capital Development and Economic Growth," Working Papers Series 533, Central Bank of Brazil, Research Department. Available at: <https://www.bcb.gov.br/pec/wps/ingl/wps533.pdf>
- Didier Brandao, Tatiana & Levine, Ross Eric & Llovet Montanes, Ruth & Schmukler, Sergio L., 2020. "Capital Market Financing and Firm Growth" Policy Research Working Paper Series 9337, World Bank.
- Gabriel Garber & Atif Mian & Jacopo Ponticelli & Amir Sufi, 2020. "Government Banks, Household Debt, and Economic Downturns: the case of Brazil," Working Papers Series 538, Central Bank of Brazil, Research Department.

4.3) Financial system, State, and sustainable finance in the green transition process

Campiglio, E., Dafermos, Y., Monnin, P., Ryan-Collins, J., Schotten, G., & Tanaka, M. Climate change challenges for central banks and financial regulators. <https://www.ifc.org/wps/wcm/connect/043e7320-3984-4dc1-b57b>

47efb27a830/Climate+change+challenges+for+central+banks+and+financial+regulators.pdf?MOD=AJPERES&CVID=mh2uvlt: Nature Climate Change, 8(6), 462, 2018.

Carney, M., 2015. Breaking the Tragedy of the Horizon—climate change and financial stability. Speech given at Lloyd's of London, Bank of England., 25 09, p. <https://www.bis.org/review/r151009a.pdf>.

Carney, M., 2018. A Transition in Thinking and Action. Remarks given by International Climate Risk Conference for Supervisors, De Nederlandsche Bank, 06 04, pp. <https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/a-transition-in-thinking-and-action-speech-by-mark-carney.pdf?la=en&hash=82F57A11AD2FAFD4E822C3B3F7E19BA23E98BF67>.

Chenet, H., 2019. Climate change and financial risk, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3407940: Working Paper.

Chenet, H., Ryan-Collins, J. & Lerven, F., 2019. Climate-related financial policy in a world of radical uncertainty: towards a precautionary approach, Working Paper 2019 -13: IIPP - UVL Institute for Innovation and Public Purpose.

Chomsky, N. & Pollin, R., 2020. Climate crisis and the global green new deal. London: Verso.

Climate Policy Initiative. Global Landscape of Climate Finance Reports (various)

Deschryver, P.; de Mariz, F. What Future for the Green Bond Market? How Can Policymakers, Companies, and Investors Unlock the Potential of the Green Bond Market J. Risk Financial Manag. 2020, 13, 61.

Global Commission on Adaptation, 2019. Adapt now: a global call for leadership on climate resilience, s.l.: s.n.



6

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IMF. "Macroeconomic and Financial Policies for Climate Change Mitigation: A Review of the Literature." IMF Working Paper 19/185, 2019: 1-58.

IPCC. IPCC_Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development. IPCC, 2018.

Mazzucato, M. & MacFarlane, L., 2019. Patient Finance for Innovation-Driven Growth, s.l.: IIPP Policy Brief (updated April 2019).

Mazzucato, M. & Penna, C., 2015. Beyond Market Failures: The Market Creating and Shaping Roles of State Investment Banks, Annandale-on-Hudson: Levy Economic Instituto. Working Paper nº 831.

NGFS, 2019. First comprehensive report, s.l.: Central Bank Supervisors.

OECD (2018), Global Outlook on Financing for Sustainable Development 2019: Time to Face the Challenge, OECD Publishing, Paris, <https://doi.org/10.1787/9789264307995-en>.

OXFAM (2020) Climate Finance Shadow Report. Published by Oxfam GB for Oxfam International under ISBN 978-1-78748-662-1 in October 2020. DOI: 10.21201/2020.6621

UNCTAD. Trade and Development Reports. Geneva: UN, various

DATA SOURCES ON FINANCE AND ECONOMIC DEVELOPMENT:

1. The **IMF's** publications, Finance and Development, IMF Survey, and IMF Working Papers are invaluable resources. These publications are available on the IMF's website, www.imf.org. Data on aggregate, regional and countrywide financial sector and macroeconomic performance are also presented in International Financial Statistics (IMF/World Bank). The IMF's annual publication, Annual Report on Exchange Arrangements and Exchange Restrictions, presents data on capital account regulations (capital controls, investment policies, exchange rate regimes).

Financial Development Index Database:

<https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B>

2. The **World Bank's** publication such as Global Development Finance, provides comprehensive data on capital flows (<http://www.worldbank.org>). The World Bank also publishes World Development Indicators, which is invaluable as well (and the database can be accessed on line).

3. **Brazilian Central Bank**, Ipeadata (the database can be accessed on line).

IFDATA: <https://www3.bcb.gov.br/ifdata/>

ESTBAN – BACEN: <https://www4.bcb.gov.br/fis/cosif/estban.asp?frame=1>

4. **European data** (Eurostat => <http://ec.europa.eu/eurostat>)



7

Subject: Financial System and Development
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Xnd Semester 202Y

5. **BIS STATISTICS**: <https://www.bis.org/statistics/index.htm?m=6%7C37>

6. The **United Nations** (www.un.org) publishes the annual World Economic Survey, which covers major issues facing the world economy. The Human Development Report (also an annual publication of the United Nations Development Program) contains useful socioeconomic data.

7- <https://www.bcb.gov.br/estabilidadefinanceira/sustentabilidade>

8 https://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Investor_Relations/global_bonds.html

<https://www.thegef.org/>

9- Network for Greening the Financial System (NGFS): <https://www.ngfs.net/en>

10 - <https://www.idfc.org/green-finance-mapping/>

11- <http://www.labinovacaofinanceira.com/>

12 - <https://portal.febraban.org.br/pagina/3085/43/pt-br/sfn-economia-verde>

EXAMINATION

I - Reviews of the indicated texts (up to 3 pages): 30 %

Review consist a very brief and concise summary of the central points or arguments the authors present in the required readings for papers submitted in connection with topics. Review refer a brief assessment of the strengths and weaknesses of the authors' central arguments. Without being authoritative, comment here on whether the authors' evidence really supports what they set out to do and their conclusions. In case the paper is empirical, the student must think about the qualitative and quantitative data presented.

Provide one question that relates directly to the required readings. The question should be concise and clearly stated. It should either be a lingering question for you or a question that will promote seminar discussion. Each week we will propose discussion questions from among those submitted, and I will use

those questions as the basis for organizing our seminar discussion.

PS: Reviews to be submitted before each class.

II - At least 2 questions in each class on the topic + participation and discussions about indicated texts in the classroom: 30%

III- Paper: 40%

CALENDAR/ DEADLINES (from 26th September 2021 to 13th December 2021):

- **Class 01: Presentation and introduction to the Course.**
- **Class 02: Part I**
- **Class 03: Part I**
- **Class 04: Part II**



8

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Xnd Semester 202Y

- **Class 05: Part II**
- **Class 06: Part II**
- **Class 07: Part III**
- **Class 08: Part III**
- **Class 09: Part III**
- **Class 10: Part IV**
- **Class 11: Part IV**
- **Class 12: Part IV**
- **Class 13: Part IV**
- **Class 14: Part IV**
- **Class 15: Deadline (final paper)**
- **15 Classes (4 h/ class) = 60 h/c**

Important: Because of the pandemic, classes will be offered online, mainly through the Google Meet Platform. However, Moodle UFOP or ZOOM also can be used if it is necessary.

