

## **EA013 - Financial System and Development**

**CH: 30 HS - Credits: 2**

**Semester: 2018.2**

**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).

### **PROGRAM CONTENT:**

#### **I. FINANCING AND DEVELOPMENT THEORIES**

##### ***I.1. NEOCLASSICAL THEORIES ON FINANCING AND DEVELOPMENT***

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).

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.**

Case studies: Latin America, Asian and Brazil (selected papers)

**Optional:**

Fry, M. J., Chs. 2-3, pp. 20-59, Money, Interest, and Banking in Economic Development. Baltimore: Johns Hopkins University, 1995.

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.

***1.2. CRITICAL TO NEOCLASSICAL THEORY***

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.

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.

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

Grabel, 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.

Grabel, 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).

Kriekhaus, 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 in the essay by E.V.K. Fitzgerald (see session above).

## II. EVALUATION AND CLASSIFICATION OF NATIONAL FINANCIAL SYSTEMS

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.

### 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.

Demirgüç-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. Demirgüç-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.

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.

Fink, G, Haiss, P and Vuksic, G . (forthcoming) Contribution of financial market segments at different states of development: Transition, cohesion and mature economies compared. *Journal of Financial Stability*, in press.

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

**Special issue:** A Case-study about Brazil. CINTRA, Marcos Antonio M. e SILVA FILHO, Edison Benedito (org.) – Financiamento das corporações: perspectivas do desenvolvimento brasileiro. IPEA, Brasília. Disponível em:

[http://www.ipea.gov.br/portal/index.php?option=com\\_content&view=article&id=18132](http://www.ipea.gov.br/portal/index.php?option=com_content&view=article&id=18132)

**PS: Other references will be suggested during the course!**

#### **IV. SPECIAL TOPICS ON FINANCIAL SYSTEM AND DEVELOPMENT**

- I: "The role of Central Banks in periods of financial crises: monetary and financial stability, provision of liquidity and experiences in different countries (USA, Brazil, EU)".
- II: "Characterization and effectiveness of macroprudential policies for the financial system"
- III: "Changes in regulation and financial supervision for central and least developed countries – a comparative studies"
- IV: "The role of public banks, development banks and other financial institutions for regional economic development".
- V: "Financialization, crisis, regulation.
- VI: Regional monetary policy – recent discussions

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

5. The United Nations ([www.un.org](http://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.

## EXAMINATION

### I - Reviews of the indicated texts: 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 – Participation and discussions about indicated texts in the classroom: 30%

### III- Seminar (Choose one topic proposed in Part V): 40%

## CALENDAR/ DEADLINES:

- Class 01: 24/08 => Presentation and introduction to the Course.
- Class 02: 14/09 => Part I  
(Professor Carlos will propose new reading suggestions)
- Class 03: 28/09 => Part I
- Class 04: 05/10=> Part II
- Class 05: 19/10 => Part II
- Class 06: 26/10 => Part II / III
- Class 07: 09/11 => Part III
- Class 08: 23/11 => Part III
- Class 09: 07/12 => Seminars about Part IV
- Class 10: 14/12 => Seminars about Part IV