

FINANCIAL SYSTEMS IN DEVELOPING COUNTRIES

Course: optional

Credits: 3 ECTS

Term: 2º (February-May)

Language: English

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OBJECTIVES

The course aims to present a selection of scholarly research on the role of financial systems in developing countries. Both economic theory and empirical research emphasize the importance of financial development for growth, inequality and poverty in the long run. Financial development is a broad concept that encompasses not only the deepening of banking systems and financial markets but also improvements in their allocative efficiency as well as in their resilience to macroeconomic shocks. In fact developing economies often exhibit low levels of financial intermediation, inefficient allocation of funds, and high exposure to financial crises. Poor institutions, heavy regulation and macroeconomic volatility are generally at the roots of such weaknesses. At micro level, financial underdevelopment translates into the exclusion of large part of the population and firms (especially SMEs and micro-enterprises) from access to, and the use of formal financial services, and a large role for informal finance. In an attempt to promote financial development and inclusion, since the 1990s governments in developing countries pursued financial reforms that in a number of cases led to an improvement of the legal and institutional environment, the deregulation of financial intermediation, the liberalization of financial markets and an expansion of financial access by households and firms. However, liberalized financial systems suffer from market inefficiencies specific to the process of financial intermediation. Moreover external liberalization provides an additional source of instability by exposing developing countries to shocks brought home by international financial markets, such as sudden stops or reversals of capital flows. For these reasons financial reforms must also include the construction of effective institutions for the supervision and prudential regulation of intermediaries and markets.

FORMAT AND TOPICS

The course is based on 11 sessions of 2 hours each and combines three different activities: lectures, debates and seminars:

-Lectures aim to provide insights from economic theory and discuss selected findings of empirical research. After a brief survey of theoretical issues, lectures will deal with six topics:

- 1) roots of financial development;
- 2) the finance-growth nexus;
- 3) finance, inequality and poverty;
- 4) financial inclusion;
- 5) informal finance;
- 6) financial globalization.

-Debates give students the opportunity to apply critical thinking and speaking skills. The information background is based on surveys, reports, policy papers and datasets on broad issues related to financial development and inclusion in different developing regions. Students are divided in large teams; each debate team is in charge of organizing and conducting a debate with the active participation of the rest of the class.

-Research seminars deal with specific research questions and give students the opportunity to apply their research skills. Students work in small teams; each seminar team is required to prepare a presentation based on a selection of readings and discuss it in front of the class. A list of research questions and a selection of related papers will be proposed and uploaded on Aula Global.

Detailed suggestions about how to organize a debate and how to structure seminar presentations will also be provided.

EVALUATION

Grading weights:

- exam 40%
- debates 10%
- research seminars 50%.

READINGS

Theoretical insights:

-P. Montiel, *Macroeconomics in Emerging Markets* (Cambridge, 2011), ch.20

Alternatively, brief surveys of topics covered by the course can be found in:

-D. Ray, *Development Economics* (Oxford University Press), chapter 14

-M.P. Todaro, S.C. Smith, *Economic Development* (Addison-Wesley), chapter 15

Exam readings (available on Aula Global)

TOPIC 1

- Beck T. et al (2003), "Law and finance: why does legal origin matter?", *Journal of Comparative Economics*, 31, pp. 653-675

TOPIC 2

-Levine R. (1997), "Financial development and economic growth: views and agenda", *Journal of Economic Literature*, 35, pp. 688-726

-Levine R., Loayza N., Beck T. (2000), "Financial intermediation and growth: causality and causes", *Journal of Monetary Economics*, 46, pp. 31-77

-Rajan R., Zingales L. (1998), "Financial dependence and growth", *American Economic Review*, 88, pp. 559-586

TOPIC 3

- Beck T., Demirguc-Kunt A., Levine R. (2007), "Finance, inequality and the poor", *Journal of Economic Growth*, 12 (1), pp. 27-49

-Claessens S., Perotti E. (2007), "Finance and inequality: channels and evidence", *Journal of Comparative Economics*, 35, pp. 748-773

-de Haan J., Sturm J-E. (2017), "Finance and income inequality: a review and new evidence", *European Journal of Political Economy*, 50, pp. 171-195

TOPIC 4

-Allen F. et al (2016), "The foundations of financial inclusion: understanding ownership and use of formal accounts", *Journal of Financial Intermediation*, 27, pp. 1-30

- Bauchet J., Morduch J. (2013), "Is micro too small? Microcredit vs SME finance", *World Development*, 43, pp. 288-297

TOPIC 5

- Guirkinger C. (2008), "Understanding the coexistence of formal and informal credit markets in Piura, Peru", *World Development*, 36 (8), pp. 1436-1452

TOPIC 6

- Bekaert G., Harvey C., Lundblad C. (2005), "Does financial liberalization spur growth?", *Journal of Financial Economics*, 77(1), pp. 3-55

-Mathonnat C., Minea A. (2018), "Financial development and the occurrence of banking crises", *Journal of Banking and Finance*, 96, pp. 344-354

A comprehensive list of literature surveys and complementary readings will also be uploaded on Aula Global.