

**MEDEG-Master in Economic Development and Growth
Edition 2019-20**

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 different aspects of the role of financial systems in developing economies. 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 lectures, discussions and research 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 broad topics:

- 1) finance and growth
- 2) government-owned banks
- 3) finance, inequality and poverty
- 4) financial inclusion
- 5) microfinance
- 6) finance for SMEs
- 7) mobile financial services
- 8) informal finance
- 9) financial fragility

At the start of each class some time will be devoted to discuss a reading, usually a report or a survey. Discussions give students the opportunity to show critical thinking and practice debate skills. Teams of three students will be in charge of organizing the discussion and stimulate the active participation of the rest of the class.

Research seminars deal with specific research questions and give students the opportunity to practice their research skills. Students work in teams of three; each seminar team is required to prepare a presentation based on a selection of readings and discuss it in front of the class.

EVALUATION

Grading weights:

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

READINGS

Theoretical insights:

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

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

Reading materials (reports, surveys) for discussions and a selection of research questions with related research papers for seminars will also be uploaded on Aula Global.

For the final exam, students will select eight (8) readings from the following list.

TOPIC 1

-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 2

-Andrianova S. et al. (2012), "Government ownership of banks, institutions and economic growth", *Economica*, 79, pp. 449-469

-La Porta R. et al (2002), "Government ownership of banks", *The Journal of Finance*, 57 (1), pp.265-300

TOPIC 3

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

-Rewilak J. (2013), "Finance is good for the poor but it depends where you live", *Journal of Banking and Finance*, 37, pp. 1451-1459

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

-Beck T. et al. (2007), "Reaching out: access to and use of banking services across countries", *Journal of Financial Economics*, 85, pp. 234-266

TOPIC 5

-Banerjee A. et al. (2015), "The miracle of microfinance? Evidence from a randomized evaluation", *American Economic Journal: Applied Economics*, 7 (1), pp. 22-53

-Bruhn M., Love I. (2014), "The real impact of improved access to finance: evidence from Mexico", *The Journal of Finance*, 69 (3), pp. 1347-1376

TOPIC 6

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

-Beck T. et al (2013), "Is small beautiful? Financial structure, size and access to finance", *World Development*, 52, pp. 19-33

TOPIC 7

Suri T., Jack W. (2014), "Risk sharing and transaction costs: evidence from Kenya's mobile money revolution", *American Economic Review*, 104 (1), pp. 183-223

TOPIC 8

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

TOPIC 9

-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

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