Course description: This course explores how developing countries cope with and adjust to and prevent periodic banking and balance of payment crises. A key topic in part II of the course is Adjustment with a human face: how can the worst consequences of financial crises for poor and vulnerable groups be mitigated? Have they so far? (see the UNICEF studies on fiscal space “adjustment with a human face”). Is the IMF a hero or still the villain? The 1946 Bretton Woods agreement the IMF with mitigating contagion and supporting a fixed exchange rate system. To some extent, the Trioka in Europe (the EU, ECB and the IMF) has renewed the IMF’s original mandate. Long dominated by the U.S. and Europe, since 2008 the IMF has nominally become the policy arm of Group of 20 and in a return to its Bretton Woods roots, it is helping the EBC defend the EURO and deal Southern European debt problems. In addition to the EUP (Euro periphery countries) the IMF has extended BoP assistance to Iceland, Belarus, Latvia, Sri Lanka, Pakistan, Mongolia, Hungary, Georgia. The IMF’s crisis map has lots of bubbles, but is the IMF helping or making the crisis worse? Both the role of the IMF and/or the impact of crises on the Poor and vulnerable in developing countries are topics for country projects (discussed below). Commodity prices drive the growth of many of emerging market countries (major exceptions are China and India, commodity importers and massive exporters manufactures and services) The past decade, and even 2009-13 have been much nicer to emerging market countries than the OECD, but just in the past few months the tables have turned again: with “tapering” on the horizon, capital flows to developing countries have reversed course once again, direction and once again currencies of emerging market countries, including India and Brazil are under pressure. Japan and the U.S. are staging a fiscal/monetary stimulus led come back, so much so that “tapering” is in the wind, this has robbed the Bricks of their tail wind, commodity prices are easing, emerging market currencies are weakening as international capital leaves the BRICS.... Meanwhile, Mario Draghi has pulled Europe back from the brink using OMT, but the recipe for growth in the periphery of the EU (don’t call them the PIGS, please) has yet to be found. Ireland has positive growth but Portugal, Spain, Italy and Greece are still sliding into oblivion. Austerity has lost its lustre, but stimulus is hard to manufactures. What lessons can we and the OECD countries learn from similar crises in Asia and Latin America during the 1980s and 1990s? How did Asia, Latin America and Africa avoid the worst of the 2008 crisis?

Requirements: The midterm and final exam account for 55% of the course grade (25% and 35%). Several problem sets add 20% and a crisis and adjustment case study/presentation account for the remaining 25% of the course grade. The weight of the take-home midterm is reduced or extra credit is given when you present your case studies to the class for discussion (15 minutes with PowerPoint or handout) before the in-class final exam.

Office Hours: Wed 9:30-10:30pm and Monday/Thursday 5:30-6:30pm or by appointment. Office hours are in E-527 Dealy, but check in 207 Dealy Wednesday and 208 Keating on Monday, check my web page for changes in Office hours, it is always best to confirm a meeting by email at mclead@fordham.edu and/or by text/call 914 661-6998 when you need to confirm or find me in Dealy.

Recommended texts:
*Krugman, P. (2012) End this Depression now!, WW Norton, NY $9.5 Kindle, $15 paper, read intro, 0393088774
Sachs J.G. & F. Larraine (1992) Macroeconomics in a Global Economy, Prentice-Hall. (S&L) Chapters 6 and 20-23 provides good and at times unique review of open economy macroeconomics with a focus on LDCs
*Purchasing these books PhD students interested in this area should have Agenor 2004 and/or Angenor and Montiel (2008) 3rd Ed. For Master’s students Montiel (2011) are Master’s level texts, Sachs and Larraine (1993) aka S&L provides a complete text for the key models used. All the chapters you need from

Other recommended, some required reading:
Excellent more advanced Open-economy macro text, but oriented mainly toward OECD countries

Topics Fall 2013:
1. How did developing countries largely escape the 2008 crisis, until now at least…. What made the crisis so severe in EU? Is austerity working? What about high public debt levels? Did global current account “imbalance”s create this crises or was it mainly lax regulation and bad crisis management?
2. Tools of adjustment: what is supposed to happen when capital flows into/out of countries change direction…. classical and modern approaches to balance of payments adjustment.
3. Protecting the Poor: social budgeting distributioanal impacts of crisis on poverty and inequality.
4. Currency and banking crises: twins or just neighbors?
5. The role of the IMF, the UN and the World Bank in mitigating crises (and now self-insurance & CAF…).
7. Private Capital flows to poor countries: boon or bane? The case for capital controls or transaction taxes.
8. The Political economy of crises and reform: are crises opportunities for reform?

Readings by Topic (*required reading)
1. What caused this crisis, why has recovery taken so long, especially in Europe?
Krugman (2009) return of depression economics, pages 1-22
Rheinhart & Rogoff (2009) Chapter 1
Pre-crisis views: Bernanke on Global Imbalances A slightly different view from the head of FRBNY Raghuram Rajan (2005)
Global Current Account Imbalances IMF Speech March 15th 2005

2. What consequences of the 2008 crisis for the poor (round I and II)
UNICEF Ronald Mendoza (2009) Aggregate Shocks, Poor Household and Children: Transmission Channels and Policy Responses LDCs avoid serious crisis: antidotes to global crisis why they work for some not others:
- G-20 boosts IMF Lending to $1 trillion (potentially)

3. Tools of Adjustment I: Classic approaches to external adjustment: Elasticity, Absorption & Monetary Approach
Elasticity Approach Notes Monetary Approach Handout Benefits/costs of alternative Adjustment Strategies
Helmers Chapter 2 The RER pp. 10-23 Gillis et al. Adjustment in a small open economy (TNT & MABP)
PhD students only: Agénor sections (9.2-9.4) (skip 9.1 & 9.5) Hinkle & Montiel (1999) FX Misalignment (on CD)

4. CA adjustment II: Modern views of CA imbalances: Intertemporal, TNT & Mundell-Fleming
Frankel and Razin (1996) 3rd ed. Chapter **17 chapter 5**: Agénor Chapters 1,2 and 8.1-8.3
Obstfeld and Rogoff (1998) International Macroeconomics, Chapter 1, MIT Press.
5. Financial crises in emerging markets: cures, causes, costs and benefits


6. Managing Aid flows: conflict and disaster recovery

Gupta, Sangeev et. al (2005) Macro Challenges of Scaling up Aid to Africa (Chapters *1 & *2)
Paul Collier and Anke Hoeflter (2001) Aid, Policy and Growth in Post-Conflict Societies

7. Stabilization, Safety Nets and Income Distribution

*Lustig, Nora (1999)*“Crisis & the Poor: Socially Responsible Macroeconomics”, IADB
Easterly and Fischer (2001) Inflation and the Poor, JMCB
World Bank, Managing Economic Crises Chapter 9 2001 WDR World Bank
World Bank, Safety Nets and Transfers
Romer and Romer (1998) “Monetary Policy & the Poor”,NBER WP #6793 [CD]
Subbarao,Braithwaite, Jalan (1997) Protecting the Poor During Adjustment, WB

8. The Political Economy of Stabilization and Reform:

Agénor (2000) Inaction Delay and Crises See also Agénor Chapt 17 section 4. Chapt 17 part 1
*Agénor Chapter 17 Clift and J. Williamson Beyond the Washington Consensus, September 2003
Dollar & Swensson Explaining the Success of Structural Adjustment Programs World Bank.

9. Globalization, commodity price shocks and the return of high inflation:

Agénor Sections 3.1,3.2, Chapt 6 2nd ed. 9.6. Defining Fiscal Deficits chart only Brazil’s Inflation
M. Kiguel and N Liviatan(1992) "When Do Heterodox Stabilization Programs Work?" WBR0, 7,1, 35-58.

10. The WB-IMF and their critics (debate):

IMF out of Argentina
Contemporary IMF critics and supporters: Keeping Capital Flowing
IMF-IEO The IMF in recent Capital Account Crises in Indonesia, Korea and Brazil
IMF-IEO Argentina Rogoff's IMF Strikes Back
IMF-IEO Sub-Saharan Africa Stanley Fischer Asian Crisis: View from the IMF
IFIAC (Melzer) Commission Report and Associated Studies
K. Rogoff *Moral Hazard, F&D 9-02; *Managing World Economy; Easing Pain
*full article: IMF Working Paper No. 01/142
(see also Masson & Mussa, The Role of the IMF, IMF Pamphlet 50, 1997)
M. Feldstein, Refocus the IMF, Foreign Affairs – March/April 1998
Goldstein, Morris (2000) Structural Conditionality: How Much is too much?

Traditional criticisms of the IMF:

   Agénor Chapter 8 (esp. *8.2-8.4) *Tirole Chapter 1 and *Chapter 2 &3
   Berg, A. et.al. Monetary regime options for Latin America F&D September 2003
   Fischer, Stanley “Is the Bi-Polar View Correct?” IMF Occasional Paper 193 Fx Regimes

7.1 1st Generation Currency Crisis Models *Mechanics of Speculative attacks (F&D, 1997)
   *Agénor Chapter 8, Sachs and Larraine, Chapter 11, especially pp. 335-343. IMF WEO 1995

7.2 2nd Generation Currency Crisis Models—Fixed vs. Flexible Rates:
   Obstfeld and Rogoff (1996) Section 9.5. smaller file for printing
   Dallas Federal Reserve Bank, 31-44 (or see Agénor Chapter 5 )

7.3 3rd Generation Models: Banking and Currency Crisis in Emerging Markets:
   Approach to Financial Crisis, IMF Working Paper WP/02/210

7.4 Predicting Currency Crises: Kaminsky,Lizondo & Rheinhardt (1998) Leading Indicators of Crises,
   IMF Global Financial Stability Report--March 2002 Chapter 4 “Early Warning Systems”

IMF WEO 1999 Chapter 3 Contagion Roubini Contagion Page

*Edwards (2005) Capital Controls and Sudden Stops
IMF,1998 Annex IV "Chile's experience" [CD]

IMF Singapore (2006) Crisis prevention reading list
Lukongo, Inutu “Riding out the Storm” F&D December 2002

*Miller, Marcus (2002) Sovereign Debt Restructuring, Boorman, Key Issues in International Reform
Roubini Debt on IMF and World Bank Reform  *Goldstein (2002) Proposals to Reform the IFA
*Krueger,(2002) Sovereign Debt Restructuring Mechanism (SDRM) 1 yr Later
(SDRM Factsheet) Rogoff, Moral Hazard How Big A Concern? Boorman, SDRM An Update
Rodrik, Dani (1999) "Governing the Global Economy: Does One Style Fit All?"[CD]

16. Case Studies: Case study preparation page

16.1 Was Asia’s Crisis Different?  return to topic list
Managing Financial Crises: the Case of East Asia (IMF 2001)
Fischer, S. 2000 Asia and the IMF  *Dornbush: Malaysia: Was it Different?
Steven Radelet and Jeffrey Sachs, "The Onset of the East Asian Financial Crisis," March 30, 1998 [CD]
Radolet, S. & Sachs J (1998) Asia Crisis Diagnosis and Remedies
IMF ICM, 1998 Chapt. 3, Emerging Markets—Implications of the Asian Crisis [CD]
Corsetti, Pesenti, and Roubini, N. (1998) "What Caused the Asian Crisis?" at the Asia crisis web page

16.2 Argentina, Brazil, Chile and Mexico in the 1990s
M. Mussa Argentina’s Crisis: Triumph to Tragedy & LatAm’s Economic Crisis (www.iie.com)
Eichengreen 2002 “New Lessons from Argentina & Turkey?”  V. Corbo, Chile in the 1990s

Case Study Resources

WDI Online database  WEO Database September 2005
IMF WEO data for Russia, Bulgaria and Turkey  Asia cty  LatAm cty
Real Exchange Rate Template (use this spreadsheet to compute RERs)
Income Distribution data from the World Bank’s Global Poverty Monitoring database
Case Study Template Excel file (Mexico)  Sample Figures  WDI Query for Case Study Data
Notable CA Adjustment/Stabilization Policy quotes quotes:

Joseph Stiglitz on the IMF “The countries that have managed globalization on their own, such as those in East Asia, have, by and large, ensured that they reaped huge benefits and that those benefits were equitably shared; they were able substantially to control the terms on which they engaged with the global economy. By contrast, countries that have, by and large, had globalization managed for them by the International Monetary Fund and other international economic institutions have not done so well. The problem is thus not with globalization but with how it has been managed.” "Globalism's Discontents," The American Prospect v.13 no.1, January 1-14, 2002.

Rudi Dornbusch on Stiglitz:: "When countries arrive at the IMF, on a stretcher, this is not the time for cute ideas. Drastic policies are necessary to avoid hemorrhage, currency collapse and

Michael Bruno on Stabilization and Multiple Equilibria, “The concept of economic reform is described as a planned shift from one Pareto inefficient, but quasi-stable, Nash equilibrium (or "trap") to a new Pareto superior equilibrium, which will also be stable. The concept is applied to recent "shock" stabilization programs, with special reference to Israel, where the economy was credibly shifted from a three-digit inflationary process, with considerable inertia, to relative price stability with higher real growth, at only moderate adjustment costs, by means of a "heterodox" plan. The idea is rationalized with a simple dual equilibrium inflation model, for which some econometric estimates are also given.” From Bruno (1989) "Econometrics and the Design of Reform" Econometrica, 57:2, 275-306

Stabilization Policy Classics

Office Hours and Course Requirements

Course Description: return to topics

This course examines how developing countries prevent, manage and recover from currency, debt and financial crises. What makes emerging market countries particularly vulnerable to these crises? What are the special macroeconomic constraints faced by less developed countries? How can vulnerable groups be shielded from the worst effects of downturns using transfers, safety net programs and a more equitable mix of adjustment policies? Can developing countries come to “own” adjustment and reform programs instead of relying on the “one size fits all” approach favored by the IMF and World Bank? Are open capital markets and local banks and financial markets worth the risk? What have the IMF and developing countries learned from the numerous crisis of the 1990s? Students of this course will become familiar with the special challenges of designing and managing macroeconomic policy in developing countries.
Recommended, Background Reading and Reference:

Pierre Agenor home page
You may find the following sites useful for preparing your case study:

IMF IFS Online: A wide range of financial and monetary time series for almost all countries.
IDB Statistics Page includes data on trade, social indicators, debt etc. for almost all LatAm cty.
IDB Research Page: this InterAmerican Development Bank page includes issues of IPES—an annual “Economic and Social Progress” report on LatAm.
IMF Home Page: Just type a name into the country information box at the bottom of the page…
IMF Publications: Many of these working papers and WEO-ICM publications are available here—see especially Finance and Development. For useful research summaries and book reviews.
IMF DSBB Pages: Standardized country data pages sanctioned but not provided by the IMF—a source for more up to date data or alternative local perspectives on crisis and IMF programs.
World Bank Data Page: A wide range of country data—the Cairo data set included on the CD comes from the growth research page
World Bank Growth Research Page This page provides many useful papers and data sets—see especially the new Global Development Network database—included on your CD as HIPC Web Page: A number of African countries plus Bolivia, Nicaragua and Honduras are HIPCs (highly indebted poor countries).

AER: American Economic Review
Dornbusch, R. ed. (1993) Policymaking in the Open Economy, OUP

ECGA-5450: Crises, Adjustment and Poverty in LDCs (formerly Stabilization Policy) Fall 2012

Course requirements: The midterm and final exam account for 70% of the course grade (25% and 45%). Several problem sets, participation in the class IMF-DSK debate, and a brief crisis case study/presentation counts for the remaining 30% of the course grade. The weight of the take-home midterm can be reduced if students present their case studies to the class for further discussion.

Course Description requirements, Walsh Library Reserve List Commanding Heights Episode 3 Stabilization classic quotes

Office Hours in E-527 Dealy: Wed 4:30 to 6pm and 9:30-10:30pm and appointment: please confirm office hours by email the same day if possible, mcleod@fordham.edu.
If I am not in my office call 914 661-6998 (cell). Check my web page for updates, travel etc. Thank you.


review of open economy macroeconomics with a focus on LDCs