

Department of Economics
Transition Reforms, Globalization, and Financial Crisis

Professor Padma Desai

G4526

Spring: 2012 Monday, 4:10-6:00pm

Required readings:

Books

1. **Coursepack**, available from me in the class or in 1015 IAB. (Hereafter **Coursepack**).
CASH PAYMENT ONLY.
2. **Financial Crisis, Contagion, and Containment: From Asia to Argentina**, Padma Desai (Princeton University Press, 2003). (Hereafter **A2A**).
3. **From Financial Crisis to Global Recovery (Columbia University Press, June 2011)**, Padma Desai. (Hereafter **FFC2GR**).

All these items are placed in the reserve section of Lehman Library. You may make your own copies of the **Coursepack**.

Recommended reading:

Book

1. **Going Global: Transition from Plan to Market in the World Economy**, Padma Desai (The MIT Press, 1997). (Hereafter **GG**).

There will be a mid-term examination on Monday, March 5 and a final examination.

1. Overview of the course.

The lectures will be divided in two broad areas: 1. The reform process in transition economies including Russia, the post-Soviet states, the East European economies, China and Vietnam (first half of the course) and 2. Financial crisis in emerging market economies of East Asia and Latin America in the late 1990s and the issues of debt default. The final four lectures will cover the current global financial crisis, the stimulus packages, the regulatory reform proposals, the future of the dollar as a reserve currency and the future of American capitalism.

1. Main issues of the reform process:

The initial conditions resulting from the breakup of the Soviet Union and the Soviet Bloc. Price liberalization and currency reform in the transition process. Contrast between the currency reform in the former Baltic republics of Estonia, Latvia and Lithuania, and in Kazakhstan and Uzbekistan.

Distinction between macroeconomic stabilization and structural reforms. Shock therapy versus gradualism. Lack of fiscal discipline, mounting deficit and revenue shortfall in the budget sector during Yeltsin reforms (1992-1999). Why did the ruble collapse in August 1998? Implications of the strong Russian budgetary and macroeconomic performance from 2000-2007.

2. Financial crises origin, contagion and containment: Double mismatch in the borrowing activity of emerging market economies. IMF rescue packages and policies. The origin of the current financial crisis. The stimulus packages to counter deepening recessions in the U.S., China, Germany and South Korea. The new regulatory reform proposals. Will the dollar remain a reserve currency? The difference between the Great Depression of the 1930s and the current recession. The future of American capitalism. **(Lecture 1, 1-23)**

2. The pre-reform background in Russia: the role of the Gorbachev phase of breath-taking political liberalization and economic failings. Why did the Soviet Union fall apart? From microeconomic inefficiency to macroeconomic disequilibrium: the Soviet record of growth retardation with fixed prices followed by macroeconomic mismanagement with pell-mell price reform under Gorbachev. Administered prices, repressed inflation, ruble overhang and microeconomic inefficiency. Localized versus generalized shortages. **(Coursepack, pp. 1-24) (Lecture 2, 1-30).**
3. Price liberalization. The price level and relative prices. What is an ideal price reform? Should all prices be freed at once? Why not? The problem of monopolies. Russian price reform: what problems did it encounter? The relevance of monetary control and currency reform in the price liberalization process. Various types of currency reforms including in the former German Democratic Republic and the former Baltic republics. What are the issues? **(Coursepack, pp. 25-58) (GG, ch. 5, pp. 243-260, The Baltic States; GG, ch. 3, pp 177-180, The former German Democratic Republic) (Lecture 3, 2-6).**
4. Definition and measures of budget deficit. The problems of raising taxes in Russia. Shock Therapy. Why did shock therapy succeed in Vietnam in East Asia? **(Coursepack, pp. 59-83) (Lecture 4, 2-13).**
5. Why did the ruble collapse in August 1998? Recent Russian recovery and emergence of budget surpluses. Putinism. The tradeoff between economic betterment during 2000-2007 and tightening political measures. **(Coursepack, pp. 84-110) (Lecture 5, 2-20).**
6. .Reasons for the East Asian financial crisis. Premature capital mobility. Contagion from Asia to Brazil via Russia. The later crisis in Brazil, Turkey and Argentina . Brazil's soaring budget deficits. Turkey: The sick man of Europe. Argentina's debt default. IMF rescue packages. Financial architecture reforms. **(A2A, pp. 86-161; pp. 163-211; A2A, pp. 212-241; A2A, pp. 263-283; Coursepack, pp. 111-157) (Lecture 6, 2-27).**

Mid-term examination, Monday, March 5.

7. Nominal exchange rate versus real exchange rate. Financial flows, exchange rate and yield difference movements in reforming economies of the post-Soviet states, east-central Europe, and the Asian economies. **(Coursepack, pp. 157/A-179) (Lecture 7, 3-19).**

- 8 The global financial crisis. Why did the crisis originate in the US? The bailout measures for averting a financial collapse. Contrast between the U.S. and EU stress tests of the banking system. **(FFC2GR, Chapters 1 and 2. (Lecture 8, 3-26).**
9. The U.S. economy on the mend. Stimulus packages. Federal Reserve monetary policy. Interest rate policy versus quantitative easing. QE2 starting in November 2010, Fiscal policy dilemmas. Employment recovery trailing behind GDP recovery. Which letter of the alphabet for describing U.S. recovery? **(FFC2GR, Chapter 3) (Lecture 9, 4-2).**
10. Modeling GDP recovery across global economies from North America to Europe and Russia, and from Asia to South America. Which explanatory variables can "best" explain crisis impact on GDP in 2009 and recovery prospects of GDP in 2010? **(FFC2GR, Chapter 4; Coursepack, pp.180-197) (Lecture 10, 4-9).**
11. Variety of financial instruments and vehicles. Hedge funds and rating agencies. Over the counter derivatives and credit default swaps. Fast electronic trading, flash orders and dark pools. The U.S. regulatory debates. The Dodd-Frank Reform Act of July 2010. Will it effectively regulate the U.S. financial system? The European regulatory reform. **(FFC2GR, Chapters 5 and 6) (Lecture 11, 4-16)**
12. Will the dollar remain the reserve currency? The relevance of the U.S.-China bilateral balancing. Is there a recurrence of the Triffin Dilemma? **(FFC2GR, Chapter 7) (Lecture 12, 4-23)**
13. The Great Depression and the current financial crisis. What are the contrasts? The future of American capitalism. **(FFC2GR, Chapters 8 and 9) (Lecture 13, 4-30).**

Final examination