

Department of Economics
Seminar on Problems of Emerging Market Economies

Professor Padma Desai

G4421, Spring 2012
Monday, 2:10-4:00pm

Requirements

1. **Coursepack**, available from me in the class or in 1015 IAB. (Hereafter **Coursepack**).
CASH PAYMENT ONLY.
2. The text book for the seminar is **PADMA DESAI: From Financial Crisis to Global Recovery (Columbia University Press), June 2011. Hereafter FFC2GR.**

There will be a mid-term examination on March 5. Each seminar participant is required to write a term paper of about 15-20 pages.

The following topics will be discussed in the class.

1. Nominal exchange rate versus real exchange rate. Financial flow, exchange rate and yield difference movements in emerging market economies. Difference between a currency crisis and a financial crisis. Interplay between structural issues versus fundamentals in crisis origin and management. Why did the Asian financial crisis of mid-1997--1999 spread from Asia to Brazil via Russia? IMF diagnosis and management of the 1997-1999 crisis. (**Coursepack**) (**Lectures 1 and 2, 1-23 and 1-30**)
2. 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. 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? The Great Depression and the current financial crisis. What are the contrasts? 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 1-3 and 5, 6, 8**) (**Lecture 3, 2-6**).
3. 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 and beyond? 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, Chapters 4, 7**) (**Lecture 4, 2-13**).
4. Mid-term examination (**3-5**).

