I. Course Description and Objectives:

This course mainly deals with the role of finance in economic development, with emphasis on developing countries (LDCs). It aims to provide the student with a better understanding of:

- the role of financial intermediation in the process of economic development;
- financial systems in the developing countries and in particular, formal and informal financial institutions;
- the role of governments and multilateral institutions (IMF and World Bank) in financial markets;
- International capital flows and globalization trends and their impacts;
- causes and consequences of financial crises and systemic risks; and
- microfinance and innovative finance for the poor.

By the end of the course, you should be able to:

i. Explain the various functions of finance in the economy as well as learn analytical tools including conducting econometric and quantitative analysis with available data and statistics.

ii. Discuss the interrelation between financial development, poverty reduction, and economic development.

iii. Distinguish the characteristics of financial systems in developing and developed countries. More specifically, to explain the notion of "financial dualism" used to characterize financial systems in developing countries.

iv. Compare and contrast the characteristics and operations of informal institutions
and lenders, and formal financial institutions such as commercial banks.

v. Critically discuss the different views on the roles of multilateral (IMF and WB) institutions and their influence on financial policies and development process.

vi. Describe the major patterns and trends of financial integration and capital flows in developed and developing countries.

vii. Explain what is meant by financial market liberalization and critically discuss the arguments for and against it.

viii. Provide the arguments for and against the promotion of stock market development, foreign direct investment and privatization of banks in low-income countries.

ix. Compare and contrast the varying theoretical perspectives on the role of financial markets in economic development particularly McKinnon-Shaw, Keynesian and Structuralist approaches.

x. Describe the various factors leading to the 2008-09 US financial meltdown and its global dimensions and discuss the consequences of financial crises and the distribution of their costs across populations.

xi. Discuss what is meant by information asymmetry and explain how it can limit credit transactions in rural areas of developing countries.

xii. Provide arguments as to why formal credit markets have failed the poor.

xiii. Provide arguments as to why informal financial sector is limited in meeting the needs of the poor.

xiv. Discuss as to whether financial liberalization has helped towards poverty alleviation or not.

xv. Explain the nature as well as performance of microfinance and other innovative financial institutions/programs such as microcredit schemes, cooperatives, ROSCAS, informal savings groups, etc. in savings mobilization among and loan provision to small enterprises, poor households and women.

xvi. Describe the techniques used by financial intermediaries such as ROSCAs, microfinance and informal lenders in reducing the risk in lending to the poor.

xvii. Learn about impact assessments of a credit or savings program/scheme.
II. COURSE REQUIREMENTS

A. PREREQUISITES
Students will be expected to have taken the prerequisites for this course or its equivalent namely: 19.500 Price Theory and 19.501 Income Theory. There will be some technical materials that may require students to review their econ concepts and tools beforehand.

B. TEXTBOOKS AND READINGS
There are two textbooks for this course, which are available in the bookstore namely:


The remainder of the required readings –both classic and influential papers as well as recent studies and research- are available either through e-journal online (AU library website), BLACKBOARD and/or hard copy. We will be using intensively the blackboard for this course. Announcements and reminders as well as data sources and discussion questions will be circulated through this site. BE SURE TO CHECK THE BLACKBOARD on a weekly basis.

C. ACADEMIC INTEGRITY
I trust that students in this course will follow the Academic Integrity Code of the University in their reaction essay and research paper. Be sure to familiarize yourself with the Academic Integrity Code. It’s available online at: http://www.american.edu/academics/integrity/index.htm.

I take plagiarism, cheating and academic dishonesty very seriously and I am required to report cases to the Dean of the College of Arts and Sciences. In doing your reaction essays, projects and writing papers, you need to properly cite all sources (1) directly quoted, (2) paraphrased, or (3) consulted in any fashion. Sources include all printed material as well as the Internet. Proper citation means using a standard citation format: MLA, APA, or Chicago.

Note that it is considered plagiarism if you merely rework source material, placing an author's thoughts in other words without contributing your own ideas. For that reason, you must include some kind of source note whenever drawing on someone else's interpretation. A source note can be a sentence or more in your paper, or it can be a footnote. A source note should clarify the extent to which your interpretation is indebted to your source, explaining both (1) what you use and (2) where you depart or differ from the source.
It is also considered plagiarism to submit drafts, response papers, and other informal assignments without properly citing sources and acknowledging intellectual debts. Failure in the course (F final grade) is the typical sanction in such cases.

**D. BLACKBOARD AND OFFICE HOURS**
Blackboard will be used to communicate with you about assignments and changes in the class schedule. Be sure to check it on a regular basis, typically on Mondays and Wednesdays.

My office hours (see above) are on a first-come, first-serve basis. If this is not convenient, you may set up an appointment ahead of time for other times.

**A note about laptops and cell phones**: Cell phones should be turned off once you enter the classroom. I strongly urge students to use laptops during class only for taking down class notes. Internet browsing, checking emails, chatting, text messaging, etc. are distracting to others and to instructor, and therefore strongly discouraged. I leave it to your sensibilities and courtesy to follow this. Note: there will be a 15-minute break each class and occasionally, a 5-minute intermission.

**E. COURSE REQUIREMENTS**
The course requirements are:
- Class attendance, participation and empirical assignment (15%)
- Weekly reaction essays (30%)
- Class presentations (15%)
- Research paper (40%)

1. **Class Attendance, Participation and Empirical Assignment (15%)**

   **Read, attend and participate.**

   For the most part, class meetings will include sharing of perspectives on the readings, lecture and discussion. The nature of the topics covered in class will likely solicit different views and perspectives, so keep an open mind throughout the course. Discussions must be based on respect and on listening to a person’s reasoned viewpoint and/or his/her explanation.

   Students are expected to actively participate in class and to be prepared to share the commentary and insights in their reaction essay. In addition, there will be an empirical assignment.

   **Empirical Assignment (5%)**
   **Attendance and Participation (10%)**

   **Empirical Assignment due date: Feb 7 (in class).**
2. **Weekly reaction essays (30%)**

Each student will submit weekly reaction essays (about 600 words or less) starting on Week 3 on the asterisked (*) assigned readings, except during debates and that student’s reading presentation; a total of 9 altogether.

**REMINDER:**

These essays are to be posted in the discussion forum of the BB [designated case study folder] no later than 10 am of the case study day (prior to class) or it’s considered late. Essays submitted the next day will not be accepted. I recommend posting your essay the night before, just to be sure.

Here are some general guidelines on the weekly reaction essay:

- State clearly 2-3 key arguments and insights from the readings, relating them to the course objectives.
- Provide reasoning, examples, and/or evidence that support these arguments or insights. They can be a short discussion of the assumptions, of the rationale provided by authors or by you and/or your own interpretation of the empirical findings (where relevant).
- Finally, make a succinct critical assessment of the readings. For example, you can discuss:
  - i. what are its contributions to our understanding of the interrelation between finance, development and poverty reduction;
  - ii. what do you find most persuasive about the article;
  - iii. what issues or points raised in the readings are you not persuaded and why;
  - iv. are there evidence or reasoning that suggests an alternative viewpoint?

**GRADING:**

Essays are randomly graded (maximum of 10 points). To get full marks, the essays should demonstrate your understanding and ability to integrate reading materials on the subject as well as your own informed analysis of the issue being addressed. Cite sources if you are using additional references. The criteria for grading of reaction essays are: a) demonstration of mastery of the materials (50%); b) logic in reasoning and clarity of arguments (30%); and c) ability to relate to course objectives and to provide a critical assessment as mentioned in guideline (20%).

Late essays are given an automatic grade of C (or grade equivalent). Essays submitted a day late are not accepted. I hope that I won’t have to use this rule - so just post or get it in on time. Be sure to have a copy of your reaction essay with you in class.

For those presenting and discussing a reading for that week, just enter your name and put a mark in the discussion forum: “PRESENTER FOR THIS WEEK’S READING”. You are not expected to write an essay for that week.
3. **Class presentations (15%)**:  
Each student will:  
a) present and lead the discussion (15-minute presentation, followed by 10-15 minute discussion) on a selected assigned reading for that week, and  
b) work in teams of 2 to prepare briefs (2 pages max) for the debates on selected topics.

*If 2 readings are related, student presenters can work to coordinate their presentations.*

**Each debate team will be expected to make a 10-12 minute presentation, followed by a 5 minute rebuttal and response. I encourage the use of additional resources but they should be cited and acknowledged. Detailed instructions for the debate will be given in early February.*

**Class Reading Presentation (5%)**  
**Debate Presentation and Performance (10%)**

3. **Research Paper (40%)**  
You will be required to develop a research paper or proposal that includes submitting the following:  

<table>
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<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>a) Thesis statement and outline submission</td>
<td>5%</td>
</tr>
<tr>
<td>b) Literature review (midterm paper)</td>
<td>10%</td>
</tr>
<tr>
<td>c) Final research paper</td>
<td>20%</td>
</tr>
<tr>
<td>d) Research Paper/Discussant Presentation</td>
<td>5%</td>
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The research paper should be an in-depth exploration of any topic covered in this course. Your paper can focus on any of the following: i) developing an alternative model or measurement indicator; ii) conducting an empirical/econometric analysis to test a given hypothesis; or iii) assessing the effects of an innovative program, policy experiment, or project that has been undertaken in the last 7 years. If data is not readily available for iii) option, the paper can provide a review of the underlying assumptions of the framework on which the project or policy is based, an analysis of the rationale or justification for implementing it, and a careful description of the methodology for making an assessment of the impact including your criteria, sampling design, and/or type of data you would collect.

The research paper requirement can be done individually or as collaboration of 2 students and, follows the Academic Integrity Code of American University. The thesis statement, outline and references is roughly 2-3 pages. Literature review paper should be max 8 pages and final research paper should be maximum 15 (individual) or 25 (collaboration) pages, excluding cover page and tables. Bear in mind that the topic has to be a development finance issue or problem. Please find below a detailed description of
the paper components and requirements.

a. Thesis Statement and Outline (5%)
Develop a clear statement identifying the issue or problem you want to examine and provide your motivation. Guide questions to consider answering: What is the question you want to answer? Why is it compelling? Then formulate an outline of the main sections of your paper, along with a list of key references. Your thesis statement, outline and references should be 2-4 pages in length.

If you plan to write an empirical paper, be sure to check FIRST on the availability of and access to the data. Then familiarize yourself with the sample design, the variables and other characteristics of the data so you can have a feasible and doable thesis statement.

**DUE DATE: Feb 14. No extensions given.**

b. Literature Review (10%)
A literature review examines the contributions and limitations, assumptions methodology and key findings of the relevant studies that address the question being examined. It should not be a summary nor an annotated bibliography of these studies. Rather, a good literature review critically compares and contrasts the perspectives approaches and findings of existing studies. Consider answering: what is the main argument of the article and how different or similar is it with the other studies? If different, is it due to the way the question is framed, the assumptions made, the data used and/or the methodology adopted?

In searching for references, the bibliography sections of the textbooks and assigned readings on the topic are good starting points. The use of the AU library database as well as internet provides additional materials on the subject but you need to be selective and must cite fully these sources.

**DUE DATE: March 21. [No extensions given.]**

c. Final Research Paper (25%)
The general parts of the final research paper include:

i) Introduction and Significance of the Study - This includes the thesis statement and a brief discussion of the significance of such a study such as the analytical, empirical or policy merits of the issue being discussed.

ii) Review of literature (revised). This section should address the comments given to your literature review.

iii) Conceptual Framework, Empirical Analysis or Research Proposal -. This main section of your paper must provide your own (conceptual or empirical or research proposal) views regarding the issue. It must present your own perspective and analysis. You need to compare and contrast
your framework, empirical results, or research question with those in the literature, highlighting the contribution of your work or research proposal.

I encourage students to conduct an empirical analysis and make use of available data. Be sure to describe the data sampling (where relevant) and methodology you intend to use.

Exploratory extensions or modifications of existing theoretical models in assigned readings are another option. Be sure to mention whose model do you plan to modify and provide the basis for the extension.

A third option is to identify a research gap in the topic of your choice and develop a feasible research proposal. This includes doing an impact assessment of an innovative financial policy or financial services/development project scheme. This option is recommended if you plan to write a master’s thesis or SRP on a development finance topic, and if you already have available database to work on but will take time to do a substantial empirical analysis.

iv) **Bibliography.** This section should list all references you cite or have used in preparing the paper including those from the internet (citing the website).

The paper must be typed, double-spaced and should have a maximum length of 15 pages (including tables, figures).

**RESEARCH PAPER DUE: May 2, Thurs in class [No extensions given].**

Each student will be asked to make a 10 minute presentation of their research paper in class. In addition, each student will serve as a discussant to another paper and prepare 3 minute presentation. I will assign the discussants for the papers beforehand.

**RESEARCH PAPER PRESENTATION: April 25, May 2.**

The research paper will be graded based on:

(i) Coverage of the literature and comparative assessment of the existing body of knowledge on the topic (20%),

(ii) Clarity and logic of your analysis including description of data/methodology or underlying assumptions. (30%),

(iii) Ability to integrate economic concepts/tools and class reading materials in the analysis of the issue/ thesis statement (20%),

(iv) Organization and adherence to guidelines inc. citation of sources (20%), and

(v) Writing skill and general appearance i.e. spelling, etc, (10%).

**REMINDER ON RESEARCH PAPER DEADLINES:**
Feb 14: Thesis statement and paper outline.
Mar 21: Literature review.
April 25, May 2: Paper presentations.
May 2: Submission of final research paper.

F. DUE DATES AND FINAL GRADE:
The due dates for all class requirements along with the weights of the requirements in the final grade are as follows:

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<thead>
<tr>
<th>Requirements</th>
<th>Weight</th>
<th>Due date</th>
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<tr>
<td>Class Participation and</td>
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<tr>
<td>Attendance</td>
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<tr>
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</tr>
<tr>
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<td>30%</td>
<td>Posted in BB by 10 am of topic day</td>
</tr>
<tr>
<td>Class Presentations</td>
<td>15%</td>
<td>TBA</td>
</tr>
<tr>
<td>Research Paper</td>
<td>40%</td>
<td>May 2 (in class)</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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</tbody>
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Students are required to fulfill all course requirements to receive a passing grade for the course. Grades are calculated as follows:

A (90-100)
B (80-89%)
C (70-79%)
D (60-69%).
F (59% and below).

Please note that each letter category includes both pluses and minuses. Late submissions will not be accepted/given unless accompanied by a written letter (stating medical or important emergency reason) and accompanying note from doctor.

Finally, I want the students in this class to feel comfortable with the requirements and pedagogic style of this class. Students will be asked at the start of semester to read carefully the rules and course requirements. Once they are agreed upon, it is the student’s responsibility to follow them.
COURSE SCHEDULE AND ASSIGNED READINGS
[NOTE: Subject to change or revision. You will be informed in advance. Student presentations and commentaries are on articles with *]

Week 1 – Jan 17: Introduction and Course Overview
SPRATT, Chap 1.

Supplementary Readings:

Week 2 – Jan 24: Tutorial on econometrics at computer lab
Econometric exercise/assignment
See materials for econometric exercises.

Week 3 – Jan 31 Finance, Poverty, Development and Growth


SPRATT, Chap 2 [especially pp. 49-55.]


Special Focus: Poverty in Developing Countries

Week 4 – Feb 7: Financial Institutions and Markets in Developing Countries
Financial Dualism: Formal and Informal Financial Sectors

SPRATT, Chaps 4 and 5


Supplementary Readings:


Week 5- Feb 14: The Case for Financial Liberalization: McKinnon-Shaw Approach
Reminder: Thesis Statement and Paper Outline Due

SPRATT CHAPTER 3 pp. 58-65

R. McKinnon (1973), Money and Capital in Economic Development, Brookings Institution, Washington DC, Chs.1, 2, 5 and 6 [SCAN]


Week 6- Feb 21: The Case for Financial Regulation: Keynesian Perspective


Supplementary Readings:
Check: www.researchonmoneyandfinance.org

[The website contains materials from the conference organised by RMF in November 2009 when an international group of scholars from a diverse disciplinary background assembled to discuss the outcomes of the current global financial crisis. Participants in the conference, entitled "One Year on from the Panic of 2008: Whither Financialised Capitalism?", included Gérard Duménil, Gary Dymski, Costas Lapavitsas, Malcolm]
Sawyer, Jan Toporowski, Paulo L dos Santos, Engelbert Stockhammer, Trevor Evans, Claude Serfati, Karel Williams, Andrew Leyshon and Shaun French, and Robin Blackburn. Audio and MP3 downloads of the conference are available, as well as a selection of the conference papers, at [http://www.researchonmoneyandfinance.org/events/](http://www.researchonmoneyandfinance.org/events/) and [http://www.researchonmoneyandfinance.org/discussion-papers/](http://www.researchonmoneyandfinance.org/discussion-papers/).

**Week 7 - Feb 28: Debate Topic 1: Stock Markets in Developing Countries**

[No reaction essay]

**Resources for the Debate Topic 1:**


**Week 8 – March 7: Globalization of Financial Markets**

**Debate Topic 2: Foreign Direct Investments**

**Debate Topic 3: Privatization of Banks**

[No reaction essay]

**Resources for Debate Topic 2: Foreign Direct Investment**

SPRATT Chapter 6, pp. 191-203, Chap. 7 pp.204-254.


Resources for Topic 3: Bank Privatization and Foreign Bank Entry


Week 9: March 21: Need for Restructuring International Financial Institutions WB and IMF?
Reminder: Literature Review Paper due


Supplementary Reading:


On Special Topic:


Week 11 – April 4: Financial Development and Poverty

Aghion and Morduch, Chaps 1 (skim) and 2.


Week 12-April 11: Informal Finance
Special Topic 5: Savings Mobilization in Africa.

*De Aghion and Morduch, Chaps 3, 4 and 5


**Supplementary Readings:**


**Week 13- April 18: Microfinance and Gender**

de Aghion and Morduch, Chap 7.


**Week 14- April 25: Microfinance: Assessing Impacts**

Reminder: Research paper presentations (Part I)

de Aghion and Morduch, Chaps 9


**May 2: Research paper presentations (Part II). Research Paper due.**