

**Course description:** Development macroeconomics uses economic theory to better understand how developing countries can manage external shocks to sustain growth while protecting the poorest. As memories of the 2008 Global Financial Crisis (GFC) fade our attention shifts to climate change and the macroeconomic impact of Aid inflows. This is consistent with the new WB-IMF focus on reducing inequality, promoting gender equality and focusing on debt relief for the poorest nations, see for example new IMF head Kristalina Georgieva's Jan 7<sup>th</sup> blog post on reducing [Inequality to create Opportunity](#) as well as her December 19<sup>th</sup> post on Sustainable Debt and [Development in Africa](#). This is a new focus for the IMF but not a sharp break with Christine Lagarde regime which placed greater emphasis on reducing barriers to Women's labor force participation and the challenge of climate shocks for low income countries. While OECD countries were hit hard by the 2008 Global Financial Crisis, most low and middle income developing countries barely skipped a beat. This was in part due to lessons learned from crises in the 1990s. Many developing countries adopted more flexible exchange rate regimes and/or accumulated large stocks of reserves and/or started sovereign wealth funds. A few also arranged swap lines or "[flexible credit lines](#)" in advance (or during the crisis) making it easier to defend their currencies w/o using reserves. [Isabel Ortiz and her team at UNICEF and the ILO \(now Columbia\)](#). documented this capacity for "socially responsible macroeconomics" or "adjustment with a human face" during 2008-2010 many developing countries actually increased fiscal spending, rejecting austerity focused stabilization policy measures (with the support of G-20 as well as them IMF and World Bank). While it is too early to declare austerity history, a remarkable number of developing countries "graduated" in that they now engage in counter cyclical fiscal policy and have access to international credit even during periods of crisis (Reinhart and Rogoff's definition of graduation). The recent downturn in commodity prices hit many countries hard (especially Venezuela, worse than the 1989 "IMF riots" aka [Caraczo](#) ). However, even the Plurinational State of Bolivia defy expectations and grew straight though the commodity price downturn, even as its richer Southern cone neighbors stumbled into negative growth. That said, many countries still have exchange rate pegs (the CFA zone check?) and suffer from what Eichengreen et al. 1999 call the "[Pain of Original Sin](#)": [they](#) cannot borrow in their own currency, if they have one. Climate, conflict or commodity price shocks cannot be met with pro-cyclical fiscal and monetary policy. Options for these countries are key focus of this course, especially where climate and conflict come together in the Sahel and Central America. See [the course calendar](#) for additional course information updated as the course proceeds (see also my [web page](#) for office hour updates).

**Requirements:** *The midterm and final exam account for 60% of the course grade (25% and 35%). Several problem sets (20%) and country/crisis case study/presentation or blog entry account for the remaining 40% of the course grade. The weight of the take-home midterm is reduced when you present or post your cast study online discussion (20 minutes with PowerPoint) before the in-class final exam. Most readings for problem sets and the exams are included as hyperlinks in the online discussion questions and on the exams themselves, so always read the questions before you do the readings, use the questions to focus your readings.*

**Office Hours:** See my web page for office hours we can also meet *anytime send me an email, My office is in E-527 Dealy, [mcleod@fordham.edu](mailto:mcleod@fordham.edu) and/or by text/call 914 661-6998.*

**Recommended Masters level texts students:**

Grabel, Illene (2018) *When Things Don't Fall Apart Global Financial Governance and Developmental Finance in an Age of Productive Incoherence*, [MIT Press.Preview](#) kindle \$15; rent for \$8 [Chapter 5](#)

Montiel, Peter (2011) *Macroeconomics in Emerging Markets*, 2<sup>nd</sup> ed. Cambridge Univ Press, [\\$32 Kindle](#), [0521733049](#)

World Bank LAC (2012) *Latin America Copes with Volatility: the Dark Side of Globalization*, World Bank, [Open Publication](#), [Presentation](#), general information, [Chief Economist's reports](#).

For review of key models, the Dutch Disease, debt and growth etc. Sachs J.G. & F. Larraine or S&L (1993)

[Macroeconomics in a Global Economy](#), Prentice-Hall. *Chapt 6 & 20-23 provide a comprehensive and accessible review of open economy macroeconomics this book is out of print, but available in online and in our library . [0131022520](#)*

**Recommended PhD texts:**

Agénor, Pierre-Richard and Peter Montiel, (2015) [Macroeconomics for Developing Countries](#), 4<sup>th</sup> edition, \$72 Kindle Princeton University Press, *defines the field of emerging market macroeconomics, but does not integrate models or teach ([Intro and Chapter 1](#)) useful review of the literature, [0691165394](#)*

Agénor, Pierre-Richard (2004) [Adjustment and Growth 2<sup>nd</sup> edition](#) (not 1<sup>st</sup> ed) Harvard University Press, [0674015789](#) [Introduction](#) (PhD students: also used for ECGA 6470 Growth and Development)

Frankel, J. and A. Razin (1996) *Fiscal Policies and Growth in the World Economy*, 3<sup>rd</sup> ed. MIT Press

*Simple elegant integrated presentation of intertemporal current account dynamics Chapters 5 & 21.*

Obstfeld and Rogoff (1998) [Foundations International Macroeconomics](#), [Chapt 1](#) and [Chapt 9](#), MIT Press

Excellent more advanced Open-economy macro text, but oriented mainly toward OECD countries

Uribe, Martin, and Stephanie Schmitt-Grohé. "Open Economy Macroeconomics" (2016) Columbia

University, in preparation for publication by Princeton University Press, [pdf version July 2016](#).

Vegh, Carlos A. (2013) [Open Economy Macroeconomics in Developing Countries](#), MIT Press, 026201890X

### **Recommended empirical and crisis readings:**

World Bank, 2016 [Global Economic Prospects \(GEP\) Divergences and Risks](#), Washington DC PDF

Baldwin, Richard and Francesco Giavazzi (2015) *The Eurozone Crisis a Consensus View of the Causes and a Few Possible Remedies* [A VoxEU.org eBook](#) CEPR Press, London 978-1-907142-88-8.

Krugman, P. (2012) *End this Depression now!*, WW Norton, NY [\\$9.5 Kindle](#), \$15 paper, [read intro](#), [0393088774](#)

Krugman (2009) *The return of Depression Economics and the Crisis of 2008*, WW Norton, [0393337804](#)

[Kindle \\$10](#), [paper \\$11](#).

Reinhart, Carmen M. and Kenneth Rogoff (2009) *This Time Is Different: Eight Centuries of Financial Crisis*

(\$13 paper or \$9 [Kindle](#)) Princeton University Press, Princeton, NJ, read first [few chapters](#) free online.

Kindleberger, Charles P. and R Z Aliber (2011) *Manias, Panics and Crashes*, 6<sup>th</sup> edition, \$13.6 kindle,

Palgrave Macmillan, Chapters 13 only.

Binder, Alan (2013). *After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead*,

Penguin HC 1594205302, \$12 kindle (selected chapters)

Tirole, Jean (2002) *Financial Crises, Liquidity and the International Monetary System*, Princeton Univ. Press

Eichengreen, Barry (2002) *Financial Crises and What to do about them*, Oxford U. Press [019257442](#) (paper)

*\*Books to have: PhD students doing research in this area obtain Agenor 2004 and Angenor and Montiel (2015) 4<sup>th</sup> edition Masters students will find Montiel (2011) and Sachs and Lorraine (1993) provides a complete introduction and overview of key models discussed in this class. We use selected readings and articles.*

### **Topics outline Spring 2020:**

1. Managing climate shocks and conflict in vulnerable or "Fragile" economies
2. Why is the IMF instrumental in monitoring ODA and WB lending: Gender and child focused budgeting
3. Fiscal space for redistribution in crises vs.
4. The role of the IMF, the UN and the World Bank in mitigating crises (and self-insurance or the CAF...).
5. Managing Foreign Aid: post-conflict, post-disaster and during health crises.
6. How did most developing countries largely escape the 2008 crisis, until the 2013 Taper Tantrm at least.... Why has recovery taken so long in Greece? Did global current account "imbalances" create this crises?
7. **New Challenges: when the United States threatens to impose Tariffs or reduce Aid Flows, what can countries like Mexico, Guatemala, Honduras, Haite and El Salvador do?**
8. **When capital flows into or out of a small open low income country, what can it do?** Classical and modern approaches to balance of payments adjustment give us some ideas....
9. Access to credit currency and banking crises: twins or just neighbors?
10. Private Capital flows to poor countries: boon or bane? The case for capital controls or transaction taxes.
11. Turning adversity to advantage: the Political economy of crises: are crises opportunities for reform?

**Readings by topic:** [please use the assigned review questions for direct links to required readings](#)

**Topic 1 Was the GFC necessary, why was Europe so vulnerable? IEO on IMF and Crises in Greece, Ireland and Portugal** ( Krugman (2009) [return of depression economics, pages 1-24](#) and Chapter 10 and Reinhart& Rogoff (2009) [Chapter 1](#) Krugman (2011) *End this Depression Now*, [Introduction](#) and [Chapter 10](#) and [how to end this Depression](#) from the NY Review of Books. PhD students M. Woodford, 2011. "[Simple Analytics of the Gov Expenditure Multiplier.](#)" [American Economic Journal: Macroeconomics,3\(1\):1-35](#). Gorton, Gary, and Andrew Metrick. 2012. "[Getting Up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide](#). [Spanish](#) JEL 50 (March): 128–50.

**Topic 2 Consequences of the 2008 crisis for the poor (round I and II)** World Bank [The State of nets for the poor 2015](#) World Bank Global Monitoring Report: [factsheet on impact of global crisis](#) on poor UNICEF Ronald Mendoza (2009) [Aggregate Shocks, Poor Household and Children: Transmission Channels & Policy Responses](#) G-20 increases IMF LDC Lending fund to \$1 trillion [IMF External Lending](#) 2009 [Stabilization, Anne Krueger with](#) comments by S Fischer & J. Sachs

## **Methods 2. Classical Approaches to external Adjustment: Elasticity, Absorption & Monetary**

[Elasticity Approach Notes](#) [Monetary Approach Handout](#) [Benefits/costs of alternative Adjustment Strategies](#)  
\*de Vries, M.G. (1987) pp 7-30 \*Boughton, James (2000) [The Silent Revolution](#)  
[Helmert Chapter 2 The RER](#) pp. 10-23 [Gillis et al. Adjustment in a small open economy](#) (TNT & MABP)  
PhD students: Agénor sections (9.2-9.4) (skip 9.1 & 9.5) Hinkle & Montiel (1999) FX Misalignment (on CD)

**Methods Topic 3: Modern Approaches to CA adjustment:** Intertemporal, TNT & Mundell-Fleming  
S&L (1993) Chapters \*6, 13.1-13.3, 14.1-14.2, and [21A](#) & [21B](#) (ERES) [Overshooting Handout](#)  
[Economist](#) & Rogoff (2001) ["Overshooting"](#) [Mundell-Fleming Handout](#) [Problem Set #2](#)  
[Frankel and Razin \(1996\) 3<sup>rd</sup> ed. Chapter \\*\\*17 chapter 5\\*\\*](#); \*\*Agénor Chapters 1,2 and 8.1-8.3  
Obstfeld and Rogoff (1998) *International Macroeconomics*, [Chapter 1](#), MIT Press.

**Topic 4. Financial crises in emerging markets: cures, causes, costs and benefits** [Tirole Introduction and Chapter 1](#)  
Tornell, Westerman and Martinez (2004) "Financial, Liberalization Growth and Crises" [NBER WP #10293](#)  
[Eichengreen, \(2004\) Financial Instability \(pages 1-36\)](#) or (1999) [Chapters 1-2](#) and [App. B](#) World Bank (2006) [GDF: The Development Potential of Surging Capital Flows](#), \*Overview and \*Chapt. 5 [Aziz & Dunaway \(2007\) China's Rebalancing Act](#)  
Edwards, Sebastian (2005) [Commanding Heights Episode 3](#) Chapters 1,5,6,11,12 [WB GDF 2004, Overview](#) and [Chapter 1](#) [A Mystery slides](#) [GDF presentation slides](#)

## **5. Managing Aid flows: conflict and disaster recovery**

[Gupta, Sangeev et. al \(2005\) Macro Challenges of Scaling up Aid to Africa](#) (Chapters \*1 & \*2)  
Demekas et. al (2002) The Economics of Post Conflict Aid, IMF Working Paper  
Collier, et. al. (2003) Breaking the Conflict Trap, Chapter 5 (World Bank on the ftp)  
Paul Collier and Anke Hoeffler (2001) [Aid, Policy and Growth in Post-Conflict Societies](#)  
Gupta, Sangeev, R. Powell and Y. Yang (2006) [Macroeconomic Challenges of Scaling up Aid to Africa](#),  
A checklist for Practitioners, IMF, Washington DC. Haacker, M. (2004) [The Macroeconomics of HIV/AIDS](#), IMF,  
Washington D.C. <http://www.imf.org/external/pubs/ft/aids/eng/>  
Elbadawi, I. A., Kaltani, L & K. Schmidt-Hebbel (2007) ["Post-Conflict Aid, Real Exchange Rate Adjustment, and Catch-up Growth"](#), World Bank Policy Research Working Paper 4187, <http://go.worldbank.org/PI1GZKJ2B0>  
Hausmann, R and D. Rodrik (2003) [Discovering El Salvador's growth potential](#)  
Arndt, C., Sam Jones and Finn Tarp (2006) ["Aid and Development: The Mozambican Case"](#)  
University of Copenhagen, Department of Economics, [Discussion Paper](#) 06-13.

## **6. Stabilization, Safety Nets and Income Distribution** [to topics](#) [Income Dist Handout](#)

Bourguignon, F & C. Morrisson (1992) *Adjustment & Equity in LDCs* (OECD, Paris).  
\*Clement, Benedict (1997) [Brazil's Real Plan, Income Dist. & Poverty](#), *F&D*, Sept.  
\*Lustig, Nora (1999) ["Crises & 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 [FTP]  
Subbarao, Braithwaite, Jalan (1997) [Protecting the Poor](#) During Adjustment, WB

## **8. The Political Economy of Stabilization and Reform:** [return to topics](#)

\*Drazen (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](#)  
\*Haggard, S. & S. Webb (1993) "Political Economy of Reform," *WBRO*, 8:2,143-68, [ERes]  
\*Haggard, S. & S. Webb (1996) *Voting for Reform* "Introduction" [ERes]  
Drazen, A. (2001) [Conditionality: A Political Economy Approach](#)  
Alesina & Drazen (1991) Why Stabilizations are Delayed *AER*, 81:5, pp. 1170-1188 [FTP]  
Williamson, J (1990) [What Washington Means by Reform](#) (2002) [Did the Washington Consensus Fail?](#)  
Dani Rodrik (1993) The Positive Economics of Policy Reform, *AER*, 83:2,356-361 [FTP]  
Ivanova et.al,(2001) ["What Determines Success or Failure of Fund Programs?"](#) pp, 1-11.  
Dollar & Swensson [Explaining the Success of Structural Adjustment Programs](#) World Bank.  
Allan Drazen & Vittorio Grilli (1993) Do crises benefit reform?, *AER*, 83:3,598-607. [FTP]  
Alesina, Alberto (1994) "Political Models of Fiscal Reform", in Haggard & Webb (1994) op.cit.

## **10. Globalization, commodity price shocks, and historical battles against high inflation :**

[Rogoff et. al \(2006\) slides](#) [Rogoff \(2004\)](#) [Gruben and McLeod \(2006\)](#)  
 Agénor Sections 3.1.3.2, Chapt 6 2<sup>nd</sup> ed, 9.6. [Defining Fiscal Deficits](#) [chart only](#) [Brazil's Inflation](#)  
 \*Calvo & Vegh (1994) "[Stabilization & Nominal Anchors](#)" *CEP* XII,35-45 . [High Inflation Handout](#)  
 \*Hamann, J. and A. Prati (2001) "[Why Do Many Disinflations Fail](#)" pp. 1-9 & 17-38 (IMF Working Paper  
 Calvo and Vegh (1997) "Inflation Stabilization..." in Taylor & Woodford, ed. *Handbook of Macroeconomics*  
 Quirk, Peter (1996) "Exchange Rate Regimes as Inflation Anchors" *F&D*, IMF, March 1996  
 Dornbusch, R. (1993) "Lessons from High Inflation..." in *Stablization, Debt and Reform*, Prentice Hall.  
 M. Kiguel and N Liviatan(1992) "When Do Heterodox Stabilization Programs Work?" *WBRO*, 7:1, 35-58.  
 Dornbusch, R and Stanley Fischer, "Moderate Inflation," *WBER*, January 1993, 7(1), pp. 1-44.

## 11. The WB-IMF and their critics (debate): ([return to topic list](#)) [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 SubSaharan Africa](#) [Stanley Fischer Asian Crisis: View from the IMF](#)  
[IFIAC \(Meltzer\) Commission Report and Associated Studies](#)  
[Fishlow\(2000\) It's Working](#) [Economist: A Thankless Job](#) [IMF Conditionality: Policy Issues](#)  
 K. Rogoff \*[Moral Hazard, F&D 9-02](#); \*[Managing World Economy](#); [Easing Pain](#)  
 Khan & Sharma (2002) \*[Conditionality and Country Ownership](#) *F&D* June 2002  
 \*full article: [IMF Working Paper No. 01/142](#)  
[M Mussa & M. Savastano \(1999\)](#) "the IMF Approach to Stabilization" WP/99/104  
 (see also Masson & Mussa, [The Role of the IMF](#), IMF Pamphlet 50, 1997)  
 M .Feldstein, [Refocus the IMF, Foreign Affairs](#) – March/April 1998  
 Stanley Fischer (1998) [The IMF and the Asian Crisis](#) [IMF Survey: Fischer Reflects](#)  
 J. Sachs (1997) [IMF a power onto itself, FT](#) 12-11-97 [Allan Meltzer Interview](#) 2003  
 Goldstein, Morris (2000) Structural Conditionality: How Much is too much?

### Traditional criticisms of the IMF:

Bacha, E. (1987) "IMF Conditionality: Conceptual Problems ..." *WD* 15:12, 1457-67.  
 Spraos, J.(1987) "IMF Conditionality: Misdirected, Ineffectual" Princeton Essays in Int. Finance.  
 Taylor, Lance (1988) *Varieties of Stabilization Experience* (Oxford Univ Press, NY)  
 Buirra, A. (2001) of IMF An Analysis of IMF Conditionality... G24 working paper ?? [FTP]  
 Buirra,A. (1983)"IMF Financial Programs and Conditionality" *JDE* 12,111-36.

## 12. Currency and Banking Crises: causes and cures. \*[Generations of Currency crisis models](#)

[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](#)  
 Dornbusch, R.(2001) [A Primer on Emerging Market Currency Crises](#)

### 12.1 1<sup>st</sup> Generation Currency Crisis Models \*[Mechanics of Speculative attacks \(F&D, 1997\)](#)

\*Agénor Chapter 8, Sachs and Lorraine, Chapter 11, especially pp. 335-343. IMF WEO 1995  
 Flood, R. and Marion (1998) Perspectives on Recent Currency Crises, IMF WP/98/130  
[IMF International Capital Markets](#), 1997 Appendix 2 page 37 and \*IMF \* [ICM 1995 part III](#).

### 12.2 2<sup>nd</sup> Generation Currency Crisis Models—Fixed vs. Flexible Rates:

[Obstfeld and Rogoff \(1996\) Section 9.5.](#) [smaller file for printing](#)  
 Calvo, G. & Carmen Reinhart, Capital Flows, Exchange Rates, and Dollarization, *F&D*, Sept 1999, 13-15.  
 McLeod & Welch (1993) "[Costs and Benefits of Fixed Exchange Rates..](#)" *Dallas Fed Economic Review*,  
 Dallas Federal Reserve Bank, 31-44 (or see [Agénor Chapter 5](#) )  
 Roubini, N. (1998) [The Case Against Currency Boards](#), A. Gulde, and H. Wolf, Currency Boards:  
 Currency Boards: the Ultimate Fix? IMF Working Paper, [WP/98/8, IMF, 1998](#)

### 12.3 3<sup>rd</sup> Generation Models: Banking and Currency Crisis in Emerging Markets:

\*Keller, C. et.al. "[The Bottom Line](#)" *F&D Dec. 2002* summary of "The Balance Sheet  
 Approach to Financial Crisis, IMF Working Paper WP/02/210  
 Calvo, Guillermo "[Balance of Payments Crises in Emerging Markets](#)" NBER, March 1998.

### 12.4 Predicting Currency Crises: Kaminsky,Lizondo & Rheinart (1998) [Leading Indicators of Crises](#),

[App & references](#) *IMFSP*, 45:1, March 1998 \*[Mulder C. "Assessing Dangers" F&D Dec. 2002.](#)  
 IMF [Global Financial Stability Report--March 2002](#) Chapter 4 "Early Warning Systems"  
[IMF Fact Sheet: Vulnerability Indicators](#) Edwards, S. (2000) "[Does the CA matter?](#)"  
 Esquivel, G and F. Larrain (1998) Explaining Currency Crises, HIID, processed, Boston, MA.  
 Salvatore, D. and Reagle (2001) "Lessons From Asia's Financial Crisis" *Open Economy Review*.  
 IMF WEO 1999 [Chapter 3 Contagion](#) \*Edwards (2005) Capital Controls and Sudden Stops  
 IMF WEO (2001) [Chapt 4 International Financial Integration](#) [IMF Occ Paper 190 Capital Controls](#)  
 GDF 2001 \*[Chapt 3 Capital Flows & Growth](#); McLeod (1996) \*[Capital Flight](#) (Encyclopedia of Economics).  
 \*Agénor Chapter 6. \*[WEO 1998 Chapter 2](#) World Bank: [Global Economic Prospects](#) Chapter 3  
 Lopez-Mejia, A (1999) Large Capital Flows: Causes, Consequences and Responses, IMF WP/99/17  
 IMF,ICM 1998 Annex IV "Chile's experience" [FTP]

- \*Corbo, V., S. Fischer and S.B. Webb (1992) *Adjust Lending Revisited*, Intro [ERes]  
 \*Dani Rodrik (1992) [Trade Policy Reform in Developing Ctys](#), *JEP*,6:1,87-105  
 Dani Rodrik (1991) [Policy Uncertainty and Private Investment in Developing Ctys](#), *JDE*,36:2,229-42.  
 Dornbusch, R. (1990) "Classical Macro and Stabilization" *AER*, 80:2, 143-47.

## 14. The New International Financial Architecture: Old Wine in New Bottles? [return to topic list](#)

- [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 [Debate on IMF and World Bank Reform](#) \*Goldstein (2002) [Proposals to Reform the IFA](#)  
 Swaboda (1999) [Reforming International System](#) Bergsten, Fred (2000) [Reforming the IMF](#)  
 \*Krueger,(2002) [Sovereign Debt Restructuring Mechanism \(SDRM\) 1 yr Later](#)  
[\(SDRM Factsheet\)](#) Rogoff, [Moral Hazard](#) How Big A Concern? Boorman, [SDRM An Update](#)  
 Eichengreen (2002) [Crisis Resolution: A Krueger-Like Process, A Taylor-Like Result](#)  
 Dell'Ariccia, Schnabel, Zettelmeyer, (2002) [Moral Hazard and International Crisis Lending](#)  
 Rogoff, J. (1999) International Institutions for Global Financial Stability, *JEP*, 13, Fall 1999 [FTP].  
 Goldstein "Asia Crisis" Chapter 4.IMF, ICM 1998, page 149-51.  
 Rodrik, Dani (1999) "Governing the Global Economy: Does One Style Fit All?"[FTP]

## 15. Case Studies: see the case study questions on the course calendar for this term.

### 15.1 Was Asia's Crisis Different? [Managing Financial Crises: the Case of East Asia](#) (IMF 2001)

- Fischer, S. 2000 [Asia and the IMF](#) Dornbush: [Malaysia: Was it Different?](#)  
 \*Kamin, Steve (1999) The Current Financial Crisis: How Much Is New? Board of Governors,  
 Federal Reserve, International Finance Discussion Papers #636, Washington D.C. [FTP].  
[Steven Radelet and Jeffrey Sachs, "The Onset of the East Asian Financial Crisis," March 30, 1998](#) [FTP]  
 Radolet, S. & Sachs J (1998) [Asia Crisis Diagnosis and Remedies](#)  
[IMF ICM](#), 1998 Chapt. 3, Emerging Markets—Implications of the Asian Crisis [FTP]  
 Salvatore, Dominick. (1999) "Lessons From the Financial Crisis in Asia".*JPM*, 21:3 pp. 283-288.  
 Dornbush, R.(1999) "After Asia: New Directions for the International Financial System". *JPM* 21:3, 289-310.  
 Stiglitz, Joseph E.(1999) "Lessons From East Asia" *Journal of Policy Modeling* 21:3 311-330.  
 Corsetti, Pesenti, and Roubini, N. (1998) "What Caused the Asian Crisis?" at the [Asia crisis web page](#)

### 15.2 Argentina, Brazil, Chile and Mexico in the 1990s

- M. Mussa [Argentina's Crisis: Triumph to Tragedy](#) & [LatAm's Economic Crisis](#) (www.iie.com)  
 Edwards, Sebastian (1999) "Crisis Prevention: Lessons from Mexico & Asia" \*Part 1&3 (ERes)  
[Eichengreen 2002 "New Lessons from Argentina & Turkey?"](#) V. Corbo, [Chile in the 1990s](#)  
 Andrés Velasco and Ricardo Hausmann (2001) [Argentina's Collapse..](#)  
 Anne O. Krueger (2002) Crisis [Prevention and Resolution: Lessons from Argentina](#)

## Notable Quotes, Classic articles:

**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, Jan 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

Bacha, E. (1987) "IMF Conditionality: Conceptual Problems, Policy Alternatives" *WD* 15:12, 1457-67.

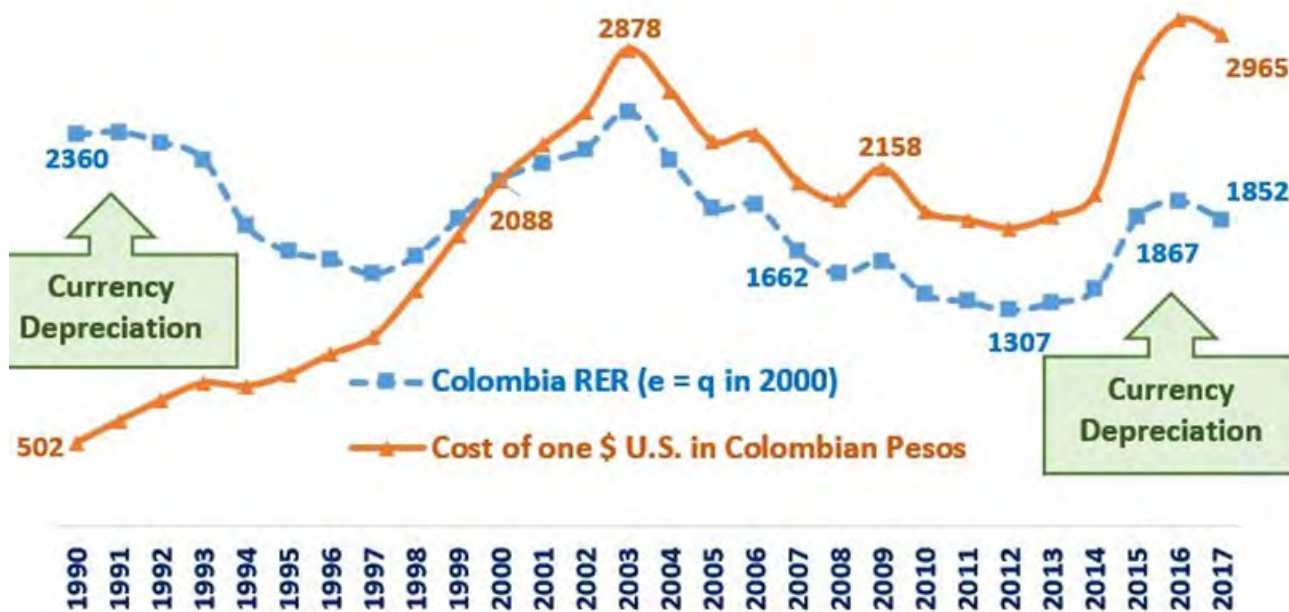
- Cline, W.R. and Weintraub (1981) *Economic Stabilization in developing countries* (Brookings)
- Dornbusch, R. (1982) "Stabilization Policies in Develop Cts: What Have We Learned?" *WD*, 10:2.
- Diaz-Alejandro, C. (1984) "Latin-American Debt: I don't think we are in Kansas Anymore" *BPEA*, 2, 335-89.
- Diaz-Alejandro, C.F., (1986) "Good-bye Financial Repression, Hello Financial Crash", *JDE*.
- Flood and Garber (1984) Collapsing Exchange Rate Regimes" *JIE* 17, August, 1-17.
- Jolly, Richard (1991) Adjustment with a Human Face", *WD*, 19:12, Dec., 1807-21.
- Krugman, P. (1979) "A Model of Balance of Payments Crisis" *JMCB*, 11, 311-25.
- Krugman, P. and L. Taylor (1978) "The Contractionary Effects of Devaluation" *JIE*, 8, 445-56.
- Sachs, J. (1985) "External Debt and Macroeconomic Performance" *BPEA*, 2, pp.523-574.
- Taylor, Lance (1988) *Varieties of Stabilization Experience* (Oxford Univ Press, NY)
- Other readings: [Pierre Agenor home page](#)
- Bruno, Michael et. al. eds. (1991) *Lessons of Economic Stabilization and After* (MIT Press).  
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**Why has the Euro crisis lasted so long? Notes on Euro crisis and reversal of fortune cope with and adjust to and prevent periodic banking and balance of payment crises. 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 ECB 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 pulled Europe back from the brink with his famous (impromptu) "whatever it takes" promise along with the mysterious OMT, but the recipe for recovery like growth in the periphery of the EU has yet to be found. Ireland has positive growth but Portugal, Spain, Italy and Greece are still stuck with very high unemployment rates. Symptomatic of Euro area problems is an inflation rate at .4% annually drifting lower when it should be rising (2% at at least). Super Mario has promised but so far not delivered much stimulus. Austerity has lost its luster, but the UK and Ireland are doing better despite budget cuts. 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?**

This course explores how developing countries can manage flows of foreign currency including official aid, private capital flows, FDI, resource revenues, remittances. More important countries may need to cope with sudden surges in capital inflows. Countries who cannot borrow or trade using their own currency often have to turn to the IMF or other countries for loans or "swap lines." Good macroeconomic management helps countries obtain aid and encourage investment and gain trading partners. During the past 15 years the world has experienced a classic-boom bust cycle except that developing countries benefitted from both the boom 2000-07 boom and the post global financial crisis easing

of monetary policy accompanied by rising commodity prices and very low interest rates. Developing countries and especially the BRICS grew rapidly during this period. As of September 2015 the tide is turning however, global growth is slowing outside the United States and capital is leaving emerging markets: commodity prices have fallen and many countries large and small are trying to stimulate trade and slow capital outflows by letting their currencies weaken against the dollar (external devaluation). The dramatic near default of Greece last month and in 2010 and its struggle with massive external debt reminds how difficult adjustment can be (especially using only internal devaluation). Part I of the course explores the adjustment process as driven largely by fiscal and monetary policy and the real exchange rate. Aid inflows, resource prices and remittances can all lead to stronger real exchange rates that dampen employment growth (as imports get cheaper and exports less profitable). Part II focuses on currency and banking crises, including the recent crises in New York and in the EU. Part III of the course focuses on Adjustment with a human face: how can poor and vulnerable groups be protected during periods of low export prices or financial crises? Was social spending maintained during the last crisis? See the excellent UNICEF studies on social spending and fiscal space during the 2009-2014 recovery.

**Fig RER-6 Colombia Real & Nominal Exchange Rate (USDA-ERS)**



Source: USDA ERS Real Exchange rate (2017 projected) updated 8-29-17  
<https://www.ers.usda.gov/data-products/agricultural-exchange-rate-data-set/>