



73-421 – Emerging Markets

Prof. Laurence Ales

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Class Web: Canvas

Office: GSIA 328

Office Hours: T 2:00-4:00

Class times: MW 3:00PM-4:20PM

Classroom: SH 219

Course Description:

The goal of the course is to study the economic and institutional forces that spur or hinder business activity and growth in emerging economies. The course is designed to provide both quantitative and theoretical foundations for the study of emerging markets. On the quantitative side, the course will cover tools for the analysis of the growth forces and obstacles facing emerging markets. On the theory side, the course will provide an overview of fiscal, trade and exchange rate policies adopted in emerging economies. In addition, the course will analyze how these policies impact businesses, investment opportunities and the overall growth of these countries. The course will focus on successful emerging economies such as India, China, Korea and Ireland with broader lessons and comparisons drawn from developed countries, as well as from failures in other developing nations.

Learning objectives:

By the end of this course the student will be able to...

1. ...describe the characteristics of an emerging market;
2. ...identify and quantify the sources of growth that shape the behavior an emerging market economy;
3. ...understand how property rights, corruption and bureaucracy impact the operation of businesses in emerging markets;
4. ...understand how fiscal, trade and exchange rate policies affect firms and household in emerging market economies;



5. ...understand the potential sources that might trigger a crisis in a emerging market;
6. ...understand the challenges and the opportunities facing multinational firms operating in emerging markets.

Prerequisites:

Formal: 73-100 or 73-150, 73-240 and 21-256 or 21-259.

Informal: In the homework, I will ask for extensive empirical and quantitative work. I advise you to refresh your knowledge of a spreadsheet software (i.e. Excel, Google docs) as soon as possible (a good way to do it is review your old 73-240 homework). Also, make sure to have on hand your slides for 73-240 (I will make available online some slides from this course.)

Course material:

Textbook: There is no required textbook for this course. The lectures are based on multiple sources. None of these sources will be used extensively enough to warrant you purchasing it. Some of the books I will refer to are the following:

1. **Macroeconomics of Emerging Markets - 2nd edition**, Peter Montiel, ISBN: 978-0521733045;
2. **Great Depressions of the Twentieth Century**, Tim Kehoe and Ed Prescott, ISBN: 978-0978936006;
3. **Barriers to Riches**, Stephen Parente and Ed Prescott, ISBN: 978-0262661300;
4. **The Other Path: The Invisible Revolution in the Third World**, Hernando De Soto, ISBN: 978-0060160203;
5. **Investing in Emerging Markets: The BRIC Economies and Beyond**, Julian Marr and Cherry Reynard, ISBN: 978-0470748251;
6. **Multinational Firms in the World Economy**, Giorgio Navaretti and Anthony Venables, ISBN: 978-0691128030.



In addition, on the Canvas website I will make available journal articles that will be discussed in class.

Twitter: I will maintain a twitter feed for the class. The class twitter feed is **@cmu_macro**. Here I will mostly post class-relevant news on emerging markets and the global economy.

Slides: I will make slides available on the class website. However, I will not make the slides available before class. This is done to encourage discussion during class. In particular, not posting slides before classes allows me to ask questions that might otherwise be answered by looking at the next slide. During the semester I will also prepare the slides in book format. The idea is for you to have a document that you might keep for years to come.

Feedback, Email and Office Hours:

Together with the usual evaluation forms, I set up an online, live, instant and anonymous feedback system. You can access it here:

<http://tinyurl.com/evaluations-ales>

I will try to respond to emails within 24 hours. Given high volumes, expect delays just before homework are due. Office hours are scheduled for Tuesday between 2:00 and 4:00pm. I will be happy to schedule additional office hours by appointment. If your question is brief you can stop by anytime, my door is (almost always) open!

Requirements and Grades:

Final Grade: The final grade will be computed according to the following components:

- Homework (20% of total grade)
- Midterm (20% of total grade)
- Class presentation & group work (25% of total grade)
- Comprehensive final (20% of total grade)



- Class participation (15% of total grade)

Final grades will be determined on a relative basis: students with the highest total points will receive A's, those next in line will receive B's, etc. I will not disclose cutoff values.

Class Discussion: In-class discussion will be an important element of each of our meetings. Discussions will occur mostly at the beginning of class, the goal will be to introduce the key topics and trade-offs that will be covered that day.

Live Polls: During classes we will conduct instant polls. These non-graded quizzes will be anonymous and will be used to test your knowledge and spark class discussions. We will use an online form. The online form can be accessed here (make sure to bookmark it):

<http://tinyurl.com/73421quiz>

Group Work: I will organize the class into groups. Each of these groups will be assigned two countries. The goal is for each group to become the class “expert” on the assigned countries. I will ask the groups to periodically present relevant news and relevant economic facts about the assigned countries. We will discuss additional details during the first week of class.

Final Class Presentation: At the end of the semester you will be asked to present in front of the class a short original study on an emerging market of your choice. The presentation will be made by groups of 4 or 5 people (perhaps the same groups discussed above). Ideally, a presentation should last for 15/20 minutes. For a presentation to be successful, the group will have to display in-depth knowledge of the emerging market chosen. Also, the group will have to display how the tools learned in the semester have been used in the work presented.



Fine print:

1. If you have a disability and have an accommodations letter from the Disability Resources office, I encourage you to discuss your accommodations and needs with me as early in the semester as possible. I will work with you to ensure that accommodations are provided as appropriate. If you suspect that you may have a disability and would benefit from accommodations but are not yet registered with the Office of Disability Resources, I encourage you to contact them at access@andrew.cmu.edu.
2. Absences: you will be excused for any class missed for reasons connected to job-search. Just let me know.
3. Class room behavior: Private conversations, browsing the web and checking email will be considered inappropriate. If you do it, you will be cold called.
4. Final score regrading: any regrading request must be submitted to the economics program at the beginning of the spring semester.
5. Class Material: I will provide lectures slides, notes etc. These materials are subject to copyright and are being provided for the personal educational use by students enrolled in this course. Any other use, including further reproduction and distribution of the materials (whether in hard copy or electronic form) is strictly prohibited. For example, you may not copy any of these materials and upload them to any other web sites without the prior permission of the applicable copyright holder.

Finally:

Take care of yourself: Do your best to maintain a healthy lifestyle this semester by eating well, exercising, avoiding drugs and alcohol, getting enough sleep and taking some time to relax. This will help you achieve your goals and cope with stress.

All of us benefit from support during times of struggle. You are not alone. There are many helpful resources available on campus and an important part of the college experience is learning how to ask for help. Asking for support sooner rather than later is often helpful.

If you or anyone you know experiences any academic stress, difficult life events, or feelings like anxiety or depression, we strongly encourage you to seek support. Counseling and Psychological Services (CaPS) is here to help: call 412-268-2922 and visit their website at

<http://www.cmu.edu/counseling/>

Consider reaching out to a friend, faculty or family member you trust for help getting connected to the support that can help.



Schedule and Course Outline

The following is a tentative outline of each lecture (note that an individual lecture does not always overlap with an individual class).

Part I

- Lecture 1: Introduction. Country Classification
- Lecture 2: Growth Accounting for Emerging markets
- Lecture 3: Case study: *South American crisis of the 80's: Chile and Mexico*
- Lecture 4: Case study: *Peru, "The other path"*
- Lecture 5: The Underground Economy in Emerging Markets
- Lecture 6: From developing to emerging markets: Barrier to riches
- Lecture 7: Diagnosis for emerging markets: *Firm Level Wedges*
- Lecture 8: Diagnosis for emerging markets: *Business Cycle Accounting*

Part II

- Lecture 9: Trade and emerging Markets. Case study: *Nafta*
- Lecture 10: International Finance. Country Study: *South Korea*
- Lecture 11: Country Study: *China*
- Lecture 12: FDI and Firms in the global economy
- Lecture 13: Debt and Debt Crisis in Emerging Markets: *Greece*
- Lecture 14: Commodity Prices and Emerging Markets



Here is the schedule for the semester:

Week	Monday	Wednesday
1	(Aug 28) Lecture 1	(Aug 30) Lecture 2
2	(Sep 4) No Class - Labor Day	(Sep 6) Lecture 2
3	(Sep 11) Lecture 3	(Sep 13) Lecture 4
4	(Sep 18) Lecture 4	(Sep 20) Lecture 5
5	(Sep 25) Lecture 6	(Sep 27) Lecture 7
6	(Oct 2) Lecture 8	(Oct 4) Lecture 8
7	(Oct 9) Lecture 8 / Review	(Oct 11) -Midterm-
8	(Oct 16) Lecture 9	(Oct 18) Lecture 9
9	(Oct 23) Lecture 9	(Oct 25) Lecture 10
10	(Oct 30) Lecture 10	(Nov 1) Lecture 11
11	(Nov 6) Lecture 11	(Nov 8) Lecture 12
12	(Nov 13) Lecture 12	(Nov 15) Lecture 13
13	(Nov 20) Lecture 13	(Nov 22) No Class - Thanksgiving
14	(Nov 27) Lecture 14	(Nov 29) Final Review
15	(Dec 4) Class Presentations	(Dec 6) Class Presentations