MONEY AND FINANCE IN ECONOMIC DEVELOPMENT

Required texts (available in the Stanford Bookstore):

STANFORD COURSE READER containing:


Though not ordered for this course, a book students with macroeconomic interests may want to consult is


All readings, except for those from the textbooks in the bookstore, are in the course outline below and will be in the second-floor lounge of the Landau Economics Building. Either use in lounge or copy and replace immediately. The honor system here is important for keeping the reserve materials on the shelf. Textbooks (but not the Reader) the library possesses will be on reserve in Meyer.

For course credit in Econ. 217, students need only take the final exam. For comprehensive credit in economic development, students must also take Econ. 214 and submit a field paper as a condition for receiving a comprehensive grade. The field paper can cover material in 214 or 217. But the grade itself will be just the mean of the two course grades.

Econ 265 and 266 in international economics nicely complement courses in development. Students with interests in economic development are encouraged to take courses in the international area.
COURSE OUTLINE

In the readings below, the students are responsible for the main ideas rather than all the technical and statistical details. The lectures provide guidance on what points to emphasize.

1. Foreign Aid, the Capital Market, and Financial Repression

Easterly, William (2001), Chs.1-3, “Panaceas that Failed: Aid for Investment”
McKinnon (1973), Chs. 1-7 (include Technical Appendix of Ch.2). Course Reader

2. Informal Credit Markets in Rural Areas, Adverse Selection, and Microfinance

   Udrey, Christopher, “Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy”, pp. 251-70.

3. Financial Deepening, Inflation, and the Productivity of Capital

The World Bank (2001), Overview and Ch. 1, “Making Finance Effective”
4. Financial Liberalization, Deposit Insurance, and Moral Hazard in Banks


McKinnon (1993), Ch. 7. “Macroeconomic Instability and Moral Hazard in Banking”.


The World Bank (2001), Ch.2, “Preventing and Minimizing Crises”.


5. Financial Restraint, “Market-Enhancing” Rent Shifting, and Government Failure in Finance


“Liberalization, Moral Hazard in Banking, and Prudential Regulation: Are Capital Requirements Enough?” *American Economic Review*, March 2000, pp. 147-165. (Students are not responsible for algebraic details.)


The World Bank (2001), Ch. 3, “Government Failure in Finance”.


6. The Inflation Tax and the Fiscal Deficit


7. Managing Inflation and the Exchange Rate in a Repressed Economy

McKinnon (1993), Chs. 5, 8, 9, and 14.

8. The Stabilization Problem

McKinnon, (1973), Chs. 7-12.
McKinnon, (1993), Ch. 6.

9. International Financial Liberalization: Growth or Overborrowing with Financial Crises?

World Bank (2001), Ch. 4 “Finance without Frontiers”.
10. The Choice of an Exchange Rate Regime


“China: A Stabilizing or Deflationary influence in East Asia? The Case of Conflicted Virtue”, Ch. 5 in McKinnon (2005)

11. Institution Building and Economic Reform


Easterly, William (2001), The Elusive Quest for Growth, Chs. 4-14.

