

THE UNIVERSITY OF THE WEST INDIES, MONA  
Department of Economics  
**ECON3010: Finance and Development**  
Semester II, 2020-21

Lecturer: Jevon Henry

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Office Hours: Mondays 12 noon – 2 pm; Tuesdays 4 pm – 5 pm

**Pre-Requisite: ECON2002**

#### Description

This course examines the relationship between finance and economic development. It focuses on critical issues such as: the role of the financial sector in fostering economic growth and alleviating poverty; government policies for the financial sector and their impact on development; and the impact of financial sector crises on economic development. A few particularly volatile local and international sources of finance and their impact on development will also be examined.

#### Learning Outcomes

Upon successful completion of the course, the student should be able to:

- Explain the role that various types of financial institutions play in facilitating economic development, identify the challenges they face, and evaluate the effectiveness of Caribbean institutions in facilitating this role in light of the challenges.
- Explain and compare the policies implemented by LDC governments in relation to the financial sector, and assess the past and potential effectiveness of the policies in a developing country context.
- Analyze the causes of financial sector crises, assess the past and possible consequences of such crises on economic development, and critique and evaluate governments' responses to the crises in their countries.
- Identify volatile sources of finance available to developing countries, and evaluate their impact on economic development.

#### Modes of Delivery

Two lecture hours and one tutorial hour per week. *Delivery will be online.*

#### Assessment

Mid-Semester Examination (40%)

Final Examination (60%)

## Syllabus

### **Basic Principles of Development Finance**

Introduction of Key Concepts

The Financial System and Types of Financial Institutions

### **The Role of Financial Development in the Process of Economic Development**

The relationship between the financial sector and economic growth

The role of credit unions

The role of development banks

The relationship between finance and poverty alleviation (The role of microfinance)

### **Government Policies for the Financial Sector and their Impact on Development**

Financial Repression

Financial Liberalization

Financial Regulation and Supervision

### **Financial Crises and Development**

Causes

Consequences

Responses and Effects

### **Volatile Sources of Finance and their Impact on Development**

Ponzi Schemes

## Resources

There is no one prescribed text for this course. Students are required to read the articles listed under each unit below:

### **Basic Principles of Development Finance**

- . Rose, Peter S. and Kolari, James W. (1995) *Financial Institutions: Understanding and Managing Financial Services* (Fifth Edition), Irwin Publishers: Chicago
- . Kitchen, Richard L. (1986) *Finance for the Developing Countries*, John Wiley & Sons: New York
- . Todaro, Michael and Smith, Stephen (2006) *Economic Development*, Pearson Addison-Wesley: Essex

### **The Role of Financial Development in the Process of Economic Development**

- . Tennant, David, Kirton, Claremont and Abdulkadri, Abdullahi. 2011. Modelling the Relative Effects of Financial Sector Functions on Economic Growth in a Developing Country Context Using Cointegration and Error Correction Methods. *Journal of Developing Areas*. 44(2): 183-205

- . Tennant, David and Folawewo, Abiodun. 2009. Macroeconomic and Market Determinants of Interest Rate Spreads in Low and Middle Income Countries. *Applied Financial Economics* 19(6): 489-507
- . Tennant, David (2007) 'Investigating the Performance of Caribbean Commercial Banks in their Mobilization and Use of Savings', *Nordic Journal of Latin American and Caribbean Studies*, Vol. 37, No. 2, pp. 55-88
- . Tennant, David (2007) 'A Comparison of the Mobilization and Use of Savings Across Types of Financial Intermediaries in the Jamaican Economy', *Savings and Development*, Vol. 31, No. 1, pp. 45-68
- . Levine, Ross (1997) 'Financial development and economic growth: Views and Agenda', *Journal of Economic Literature*, Vol. 35, pp. 688-726
- . Arestis, Philip and Demetriades, Pancios (1997) 'Financial Development and Economic Growth: Assessing the Evidence', *The Economic Journal*, 107, pp. 783-799
- . Demetriades, P. and Andrianova, S. (2003) 'Finance and Growth: What we Know and What we Need to Know', [www.le.ac.uk/economics/research/RePEc/lec/leecon/dp03-15.pdf](http://www.le.ac.uk/economics/research/RePEc/lec/leecon/dp03-15.pdf)
- . Worrell, Delisle, Bourne, Compton, and Dodhia, Dinesh (1991) *Financing Development in the Commonwealth Caribbean*, Macmillan Education Ltd: London
- . De Aghion, Beatriz Armendariz (1999) 'Development Banking', *Journal of Development Economics*, Vol. 58, pp. 83-100
- . Hulme, David and Mosley, Paul (1996) *Finance Against Poverty Volume 1*, Routledge: London
- . Odle, Maurice (1998) 'Banking, Finance and Caribbean Development', Paper Presented at the XXX Annual Monetary Studies Conference, Paradise Island, The Bahamas, October 26-30, 1998

### **Government Policies for the Financial Sector and their Impact on Development**

- . Fry, Maxwell J. (1995) *Money, Interest and Banking in Economic Development*, The John Hopkins University Press: Baltimore and London
- . Williamson, John and Mahar, Molly (1998) 'A survey of financial liberalization', *Essays in International Finance*, No. 211, Princeton University
- . Caprio, Gerard, Honohan, Patrick and Stiglitz, Joseph E. (2001) *Financial Liberalization: How far, how fast?* Cambridge University Press: Cambridge
- . Demirguc-Kunt, Asli and Detragiache, Enrica (1998) 'Financial liberalization and financial fragility', <http://www.imf.org/external/pubs/cat/longres.cfm?sk=2637.0>
- . Williamson, John (1998) 'Whither Financial Liberalization', <http://www.iie.com/publications/papers/williamson1198-2.htm>
- . Brownbridge, Martin and Kirkpatrick, Colin (2000) 'Financial Regulation in Developing Countries', *Finance and Development Research Programme Working Paper Series*, Paper No 12  
[http://www.sed.manchester.ac.uk/idpm/research/publications/archive/fd/fd\\_wp12.htm](http://www.sed.manchester.ac.uk/idpm/research/publications/archive/fd/fd_wp12.htm)
- . Brownbridge, Martin, Kirkpatrick, Colin and Maimbo, Samuel Munzele (2002) 'Prudential Regulation' *Finance and Development Briefing Papers*  
<http://www.sed.manchester.ac.uk/idpm/research/publications/archive/fd/fdbrief3.pdf>

### **Financial Crises and Development**

- . Tennant, David. 2011. Factors Impacting on Whether and How Businesses Respond to Early Warning Signs of Financial and Economic Turmoil: Jamaican Firms in the Global Crisis. *Journal of Economics and Business*. 63: 472-491
- . Tennant, David. 2010. Global Financial Crisis to Real Sector Contraction: Exploring Transmission Mechanisms in a Small Open Economy – Business Coping Strategies in Jamaica. *Global Development Studies*. 6(1-2): 235-290
- . Tennant, David (2006) 'Lessons Learnt by the Survivors of Jamaica's Financial Sector Crisis', *Savings and Development*, 30(1), pp. 5-22
- . Tennant, David and Kirton, Claremont (2006) 'Assessing the Impact of Financial Instability: The Jamaican Case Study', *Nordic Journal of Latin American and Caribbean Studies*, 36(1), pp. 9-36
- . Tennant, David and Kirton, Claremont (2007) 'The Impact of Foreign Direct Investment, Financial Crises and Organizational Culture on Managers' Views as to the Finance-Growth Nexus', *Journal of Economic Issues*, Vol. 41, No. 3, pp. 625-660
- . Kirkpatrick, Colin and Tennant, David (2002) 'Responding to Financial Crisis: The Case of Jamaica', *World Development*, 30(11), pp. 1933-1950
- . Radelet, Steven and Sachs, Jeffrey D. (1998). 'The Onset of the East Asian Financial Crisis', <http://www.nber.org/papers/w6680.pdf>
- . Llewellyn, David (1999) 'Some Lessons for Regulation from Recent Bank Crises', *Finance and Development Research Programme Working Paper Series*, Paper No 11 [http://www.sed.manchester.ac.uk/idpm/research/publications/archive/fd/fd\\_wp11.htm](http://www.sed.manchester.ac.uk/idpm/research/publications/archive/fd/fd_wp11.htm)
- . Brownbridge, Martin and Kirkpatrick, Colin (1999) 'Financial Sector Regulation: The Lessons of the Asian Crisis', *Finance and Development Research Programme Working Paper Series*, Paper No 2, <http://www.sed.manchester.ac.uk/idpm/publications/archive/fd/fdwp02.pdf>
- . Chen-Young, Paul (1998). 'With all good intentions: The collapse of Jamaica's domestic financial sector'. *Policy Papers on the Americas* 9(12): 1-22.

### **Volatile Sources of Finance and their Impact on Development**

- . Tennant, David. 2011. Why do People Risk Exposure to Ponzi Schemes? Econometric Evidence from Jamaica. *Journal of International Financial Markets, Institutions and Money*. 21: 328-346