

UNIVERSITY OF FLORIDA  
DEPARTMENT OF FINANCE  
WARRINGTON COLLEGE OF BUSINESS ADMINISTRATION

EMERGING MARKETS FINANCE  
P2MBAS17/18 FIN6930  
Fall 2017

Brian C. Gendreau  
(352) 846-0273  
[brian.gendreau@warrington.ufl.edu](mailto:brian.gendreau@warrington.ufl.edu)

Website: [bgendreau.com](http://bgendreau.com)

---

This course provides an introduction to investing and finance in the emerging markets. The main perspective is that of an investment manager, but the course will also provide insights into key macro-economic policy debates in the emerging markets. The objective is to equip students with analytical tools and practical knowledge about financial markets in developing countries.

**Course materials:** The main text for this course is:

David F. DeRosa, *Central Banking and Monetary Policy in Emerging-Market Nations*, Research Foundation of CFA Institute, 2009.

The text will be supplemented by articles in the course packet. Most of the articles are also available online through the UF business library at <http://businesslibrary.uflib.ufl.edu>.

The lectures will be in the form of PowerPoint presentations which will be posted to the e-learning site for the course.

**Cases:** There will be three cases for the course:

1. *Capital Controls in Chile (A) and (B)* by Laura Alfaro and Rafael Di Tella, Harvard Business School Case no. 9-705-031, July 17, 2007; and
2. *Globalizing the Cost of Capital and Capital Budgeting at AES*, Harvard Business School case, by Mihir Desai, case 9-204-109, revised October 23, 2006.
3. *Banco Ciudad (A): Who is the Owner? and (B) Transformation at Work*, by Aldo Musacchio, Gustavo Herrero, and Cintra Scott, Harvard Business School case No. 9-712-029, February 2, 2012.

Each case will be presented by a team of volunteers. The presenting team will get a team grade for the case and the full five points' credit for class participation. The team will turn in their presentation slides after the case discussion; no separate case write-up is necessary. All students not presenting the case will take a quiz on the case and get an individual grade. The quizzes and case presentations will be worth the same number of points.

Students new to the case method are encouraged to read Robert F. Bruner, *Note to the student: How to study and discuss cases*, University of Virginia Darden School Foundation (2001).

Students with disabilities will be accommodated. University policy is that such students must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the Instructor when requesting accommodation. <http://www.dso.ufl.edu/drc/>

**Grading:** Grades will be determined by a midterm exam (30%), a final examination (40%) — both closed-book — class participation (5%), problem sets (5%) and three cases (20%). Grading will be in accord with Graduate School policy: <http://www.registrar.ufl.edu>

Class attendance is required. Arrangements can be made to make up assignments and exams missed because of unforeseen events such as illnesses, job-related travel, or family emergencies *provided* the make-ups are arranged beforehand. Any make-up exams for the mid-term and the final will each be offered to students on a single date only.

Laptop policy: There is none. Students overly absorbed in their laptops, however, are unlikely to do well on the class participation portion of their grades.

I will be available for office hours on the weekends classes meet. I also respond to e-mails, usually on the same day.

The final exam will be on Saturday December 9, 2017 — the day before graduation.

## Lectures

### Part I: The economic and institutional context

#### I. Overview

De Roosa, Chapter 1: Emerging Markets and Their Central Banks.

#### II. Exchange rate regimes in the emerging markets

DeRosa, Chapters 1, 2, 4, and 5.

Keith Sill, "Understanding Asset Value: Stock Prices, Exchange Rates, and the "Peso Problem," Federal Reserve Bank of Philadelphia *Business Review* (September/October 2000).

Andrew Berg and Eduardo Borensztein, "Full Dollarization: The Pros and Cons," IMF *Economic Issues No. 24* (December 2000). Available on Canvas.

### **III. Capital flows and the balance of payments**

DeRosa, Chapters 3 and 6. Open economies and the paradox of international capital.

Frank Warnock, "A User's Guide to the BoP and IIP," The University of Virginia Darden School Foundation, UVA-BP-0523 (2008).

### **IV. Capital controls**

**Case I:** *Capital Controls in Chile (A) and (B)*.

DeRosa, Chapter 7, Intervention, sterilization, and capital controls.

Jonathan Ostrey, Atish Ghosh, Marcos Chamon, and Mahvash Qureshi, "Capital Controls: When and Why?" *IMF Economic Review*, Vol. 59, No. 3 (2011).

### **V. Financial crises and debt crises**

Carmen Reinhart and Kenneth Rogoff, "From Financial Crash to Debt Crisis," *American Economic Review* (August 2011).

### **VI. Debt relief**

*Debt Sustainability in Low-Income Countries: HIPC and Beyond*, Presentation, World Bank, Economic Policy and Debt Relief Department, 2005. Available on the e-learning site for the course.

William Easterly, "Think Again: Debt Relief," *Foreign Policy* (November 16, 2009).

## **Part II: Investing and finance in the emerging markets**

### **VII. Valuation**

**Case II:** *Globalizing the Cost of Capital and Capital Budgeting at AES*.

Niso Abuaf, "The International Cost of Capital: The Empirical Evidence," Salomon Brothers (June 1997).

Robert Bruner et. al., *Investing in Emerging Markets*, Chapter 6: Valuation in Emerging Markets.

Aswath Damodaran, "Country Risk and Company Exposure," Theory and Practice," *Journal of Applied Finance* (Fall/Winter 2003).

Jaime Sabal, "The Discount Rate in Emerging Markets: A Guide" *Journal of Applied Corporate Finance* (Spring/Summer 2004).

### **VIII. Investment strategy**

At this point the course shifts gears away from macro issues toward investing, raising capital, valuation, and doing business in the emerging markets. It begins with a discussion of the economic foundations of asset allocation and some of the major approaches to investing in emerging market equities.

Magnus Dahlquist and Campbell Harvey, "Global Tactical Asset Allocation," *Emerging Markets Quarterly* (2001).

Brian Gendreau, "Why Do Country Allocation Strategies Work?" Salomon Smith Barney, June 15, 2001.

*Emerging Markets Equity Allocator*, Leila Heckman, John Mullins, and Vinod Dasaratha, Heckman Global Advisors, a subsidiary of Leberthal Asset Management, *August 2017* — to be posted to Canvas.

### **IX. Privatizations and state-owned enterprises.**

**Case III.** *Banco Ciudad (A) Who is the owner? and (B) Transformation at work.*

### **X. Corporate governance and corruption**

Beim and Calomiris, Chapter 5, Information and Control.

Daniel Kaufman, "Corruption Matters," *Finance and Development*, IMF (September 2015).

Andrei Shleifer and Robert W. Vishny, "Corruption," *Quarterly Journal of Economics* (August 1993).

Nary Hallward-Driemeir and Lant Prichett, "How Business is Done in the Developing World: Deals versus Rules," *Journal of Economic Perspectives*, Vol 29, No. 3 (Summer 2015).

## **XI. Development and credit**

David Roodman, "Think Again: Microfinance," Center for Global Development, February 1, 2012.