

International Economics

Academic year 2024-2025

Finance, Development and Inclusion

El131 - Autumn - 6 ECTS

Tuesday 16h15 - 18h00

Course Description

Investment is considered crucial for economic development, and financial development is seen as serving this goal. Influential accounts view finance and capital as enhancing inequality. Other accounts view global financialization as a destabilizing force for developing economies. In this course, we will explore the relationship between finance, development, and inclusion. We will begin with acquiring the analytical framework of financial development, financial institutions, and financial inclusion. We continue with a survey of the historical record of the relationship between finance, economic development, and inclusion. We then analyze contemporary evidence of financial development and inclusion. We will end the course by analyzing existing policies to achieve financial development and inclusion, their impact and shortcomings, and offer suggestions for future developments.

> PROFESSOR

[Nathan Sussman](#)

[Office hours](#)

> ASSISTANT

[Office hours](#)

Syllabus

Perquisites: Proficiency in economics is **preferable but not required**. The course requires the ability to understand analytical concepts and quantitative evidence,

Requirements

1. Students should attend and are expected to read ahead of class discussion.
2. Students are required to submit a **short** term-paper. (7-10 pages, 60% of the final course grade).
3. Students will be assigned to prepare a short presentation to leadoff class discussion/debate on selected topics. (40% of final course grade).
4. No final exam

Course Outline

Required readings *

Recommended readings R

Part I Foundations

1. Finance and development: an overview

a. Capital accumulation and development (September 17)

* Rostow, W. W., & Rostow, W. W. (1991). *The stages of economic growth: A non-communist manifesto*. Cambridge university press. Ch. 2. Pp. 4-16.

* Bustos, .P, Garber, G., and Ponticelli, J. (2020). "Capital Accumulation and Structural Transformation". *The Quarterly Journal of Economics*, vol. 135, no. 2, pp. 1037-1094.

R Gehringer, A. (2019). "Growth, productivity and capital accumulation: The effects of financial liberalization in the case of the European integration". *International Review of Economics and Finance*, vol. 25, 2013, pp. 291-309.

b. What is finance? (September 17)

* Cecchetti, S. and Schoenholtz, K. (2021). Chapter 11: The Economics of Financial Intermediation. *Money, Banking and Financial Markets*. McGraw-Hill Education Pp. 268-277.

R Mishkin, F. S. (2016). Chapter 2: An Overview of the Financial System. *Economics of Money, Banking and Financial Markets* (Eleventh Ed.). Pearson

c. The fundamental problem of finance (September 24)

* Greif, A. (2000). The fundamental problem of exchange: a research agenda in historical institutional analysis. *European Review of Economic History*, 4(3), 251-256.

* Cecchetti, S. and Schoenholtz, K. (2021). Chapter 11: The Economics of Financial Intermediation. "*Money, Banking and Financial Markets*". McGraw-Hill Education Pp. 277-289.

R Mishkin, F. S. (2016). Chapter 8: An Economic Analysis of Financial Structure. *Economics of Money, Banking and Financial Markets* (Eleventh Ed.). Pearson

R Sufi, A. (2007). "Information asymmetries and financing arrangements: evidence from syndicated loans". *Journal of Finance*, vol. 62, pp. 629-668

d. Debt and equity (September 24)

* Colombo, M. G. and Grilli, L. (2005). "Start-up size: The role of external financing". *Economic Letters*, vol. 88, pp. 243-250.

* Giaretta, E. and Chesini, G., (2021). The determinants of debt financing: The case of fintech start-ups. *Journal of Innovation & Knowledge*, 6(4), pp.268-279.

* Pagano, M. (2005). The Modigliani-Miller theorems: a cornerstone of finance. *PSL Quarterly Review*. Pp. 237-247.

R Benmelech, E. (2009). Asset salability and debt maturity: Evidence from nineteenth-century American railroads. *The Review of Financial Studies*, 22(4), 1545-1584.

R Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance and the theory of investment. *The American economic review*, 48(3), 261-297.

e. Financial contracts and financial players

R Mishkin, F. S. (2016). Chapter 2: An Overview of the Financial System. *Economics of Money, Banking and Financial Markets* (Eleventh Ed.). Pearson.

2. Financial institutions (October 1)

a. Private, public and blended finance

* Havemann, T., Negra, C. and Werneck, F., (2022). Blended finance for agriculture: exploring the constraints and possibilities of combining financial instruments for sustainable transitions. In *Social innovation and sustainability transition* (pp. 347-358). Cham: Springer Nature Switzerland.

b. Domestic and global financial markets

* Mishkin, F. S. (2016). Chapter 20: The international Financial System. *Economics of Money, Banking and Financial Markets* (Eleventh Ed.). Pearson Pp. 522-3; 534-8.

R Chinn, M. D., & Ito, H. (2007). Current account balances, financial development and institutions: Assaying the world "saving glut". *Journal of international money and Finance*, 26(4), 546-569.

R Obstfeld, M. (2009). International finance and growth in developing countries: what have we learned?. *IMF staff papers*, 56(1), 63-111.

3. Financial inclusion (October 1)

a. Defining financial inclusion

* Barajas, Adolfo; Beck, Thorsten; Belhaj, Mohamed and Naceur, Sami Ben (2020). "Financial Inclusion: What Have We Learned So Far? What Do We Have to Learn?". *IMF Working Paper*. Pp. 2-53.

* Demirguc-Kunt, Asli; Klapper, Leora; Singer, Dorothe; Ansar, Saniya and Hess, Jake R (2021). "The Global Findex Database 2017: Measuring Financial Inclusion and Opportunities to Expand Access to and Use of Financial Services". *The World Bank Economic Review*, World Bank Group. Pp. 1-7.

R World Bank (2014). *Global Financial Development Report 2014: Financial Inclusion*. Washington, DC.

b. The case for financial and inclusion and inclusive growth

* Sarma, M., & Pais, J. (2011). Financial inclusion and development. *Journal of international development*, 23(5), 613-628.

R Arandara, R. and Gunasekera, S. (2020). "Financial Inclusion and Inclusive Growth: What Does It Mean for Sri Lanka?". *Policy Research Working Paper 9204*, World Bank Group Pp. 1-27.

Part II: Finance, development and inclusion: lessons from history (October 8-15)

1. Ancient finance

a. Emergence of credit instruments

*Hudson, M. (2002). *Reconstructing the origins of interest-bearing debt. Debt and Economic Renewal in the Ancient Near East*. Bethesda, MD: Capital Decisions Limited, Pp. 7-58.

R Temin, P. (2004). Financial intermediation in the early Roman Empire. *The Journal of Economic History*, 64(3), 705-733.

b. Interest rates, usury and social norms

* Davis, G. F., & Kim, S. (2015). Financialization of the economy. *Annual Review of Sociology*, 41, 203-221.

* Mews, C. J., & Abraham, I. (2007). Usury and just compensation: Religious and financial ethics in historical perspective. *Journal of Business Ethics*, 72(1), 1-15.

2. Financing the European transition from agriculture to trade

a. From debt to equity finance

* Fynn-Paul, J. (2017). The Land Commenda in the Late Medieval Crown of Aragon and the Rise of a 'Democratic' Investment Culture. *TSEG-The Low Countries Journal of Social and Economic History*, 14(3), 85-107.

R Pryor, J. H. (1977). The origins of the commenda contract. *Speculum*, 52(1), 5-37.

b. The emergence of banks

* Goldthwaite, R. A. (1987). The Medici Bank and the world of Florentine capitalism. *Past & present*, (114), 3-31.

c. The emergence of bond markets

*Sussman, N., & Yafeh, Y. (2006). Institutional reforms, financial development and sovereign debt: Britain 1690–1790. *The Journal of Economic History*, 66(4), 906-935.

R Chilosì, D. (2014). Risky institutions: political regimes and the cost of public borrowing in early modern Italy. *The Journal of Economic History*, 74(3), 887-915.

d. Financial inclusion in Early modern Europe

* Coffman D, Stephenson, J., & Sussman, N. (2022). Financing the Rebuilding of the City of London after the Great Fire of 1666. *The Economic History Review*. Pp. 1-31.

R Ogilvie, S., Küpker, M., & Maegraith, J. (2012). Household debt in early modern Germany: evidence from personal inventories. *The Journal of Economic History*, 72(1), 134-167.

3. Finance and development in 19th century

a. The emergence of sovereign development finance

*Fishlow, A. (1985). Lessons from the past: capital markets during the 19th century and the interwar period. *International organization*, 39(3), 383-439.

R Eichengreen, B., El-Ganainy, A., Esteves, R., & Mitchener, K. J. (2019). Public debt through the ages (No. w25494). *National Bureau of Economic Research*. Pp. 2-57.

b. Globalization of finance

*Mauro, P., Sussman, N., & Yafeh, Y. (2006). *Emerging markets and financial globalization: sovereign bond spreads in 1870-1913 and today*. Oxford University Press. Ch. 2. (40)

c. Financial inclusion in the industrial age

* Mitchener, K. J., & Wheelock, D. C. (2013). Does the structure of banking markets affect economic growth? Evidence from US state banking markets. *Explorations in Economic History*, 50(2), 161-178.

Part III: Measurement of financial development and inclusions

1. Measuring financial development

a. Financial deepening (October 22)

* Ayala, D.; Barajas, A.; Bi, R. Čihák, M.; Gao, Y.; Kyobe, A.; N'Diaye, P.; Nguyen, L.; Saborowski, C.; Sahay, R.; Svirydzenka, K. and Yousefi, S. R. (2015). "Rethinking Financial Deepening: Stability and Growth in Emerging Markets". *IMF Staff Discussion Note*. Pp. 1-41.

* Ho, C. Y., Huang, S., Shi, H., & Wu, J. (2018). Financial deepening and innovation: The role of political institutions. *World Development*, 109, 1-13.

R Herman, A. and Klemm, A. (2017). "Financial Deepening in Mexico". *IMF Working Paper*, vol. 2017.

R Khan, M. A., Máté, D., Abdulahi, M. E., Sadaf, R., Khan, M. A., Popp, J., & Oláh, J. (2024). Do institutional quality, innovation and technologies promote financial market development?. *European Journal of International Management*, 22(3), 484-507.

R Kpodar, K.; Le Goff, M. and Singh, R. J. (2019). "Financial Deepening, Terms of Trade Shocks, and Growth Volatility in Low-Income Countries". *IMF Working Paper*.

b. Is there too much finance? (October 22)

* Arcand, J-Ls; Berkes, E. and Panizza, U. (2015). "Too much finance?". *Journal of Economic Growth*, vol. 20, pp. 105-148.

R Law, Siong Hook and Singh, Nirvikar (2014). "Does too much finance harm economic growth?". *Journal of Banking and Finance*, vol. 41, pp. 36-44.

R Zheng, M., Feng, G. F., Wang, Q. J., & Chang, C. P. (2023). Financial globalization and technological innovation: International evidence. *Economic Systems*, 47(1), 101048.

2. Measuring financial inclusion

a. Access to finance (October 29)

* Coles, S. Kanz, M. and Klapper, L. (2016). "Improving Financial Access for Entrepreneurs in Developing Countries". *IGC Policy Brief*, vol 2011.

R Demirgüç-Kunt, A.; Klapper, L. F. and Panos, G. A. (2009). "Entrepreneurship in post-conflict transition: the role of informality and access to finance". *Policy Research Working Paper*.

R Mrkaic, M. and Öztürk, B. (2014). "Access to Finance by SMEs in the Euro Area: What Helps or Hampers?". *IMF Working Paper*.

Part IV: Policies for financing for positive impact and inclusion

1. Impediments on the road to financial development and inclusion

a. The mismatch between supply and demand for impact finance (October 29)

* Bolis, M., Sahan, E., West, C., Irani, I., & Nash, R. (2017). [Impact Investing: Who are we serving? A case of mismatch between supply and demand](#).

* Phillips, S. D., & Johnson, B. (2021). Inching to impact: The demand side of social impact investing. *Journal of Business Ethics*, 168(3), 615-629.

R [The 2020 Annual Impact Investor Survey](#)

b. Corruption and governance (November 5)

* Bardhan, P. (1997). Corruption and Development: A Review of Issues. *Journal of Economic Literature*, 35(3), 1320-1346.

* Bourguignon, F., & Platteau, J. P. (2021). Should a Poverty-Averse Donor Always Reward Better Governance? A Paradox of Aid Allocation. *The Economic Journal*, 131(637), 1919-1946.

R Gray, C. W., & Kaufmann, D. (1998). Corruption and development. *Finance & Development*, 35(001).

2. Current issues in inclusive finance

a. Microfinance and Microcredit (November 5)

*Banerjee, A., Esther D., Rachel G., and Cynthia K., (2015). "The Miracle of Microfinance? Evidence from a Randomized Evaluation." *American Economic Journal: Applied Economics*, vol. 7 (1), pp. 22-53.

* Buera, F. J., Kaboski, J. P., & Shin, Y. (2021). The macroeconomics of microfinance. *The Review of Economic Studies*, 88(1), 126-161.

R Banna, H.; Mia, M. A.; Nourani, M. and Yaarovaya, L. (2022). "Fintech-based Financial Inclusion and Risk-taking of Microfinance Institutions (MFIs): Evidence from Sub-Saharan Africa". *Finance Research Letters*. Pp. 1-10.

R Cull, R.; Demirgüç-Kunt, A. and Morduch, J.(2009). "Microfinance Meets the Market". *Journal of Economic Perspectives*, vol. 23, no. 1, pp. 167-192.

R di Magliano, R. P., and Vacaro A.. (2020). "A Macro-Level Analysis of the Economic and Social Impact of Microfinance in Sub-Saharan Africa." *Contemporary Issues in Sustainable Finance*, edited by Mario La Torre and Helen Chiappini, Palgrave Macmillan, pp. 131-150

b. International development banks (November 12)

*Chin, G. T. (2014). "The BRICS-led Development Bank: Purpose and Politics beyond the G20". *Global Policy*, vol. 5.

*Clifton, J.; Diaz-Fuentes, D. and Gómez, A. L. (2017). "The European Investment Bank: Development, Integration, Investment?". *Journal of Common Market Studies*, vol. 56, no. 4, pp. 733-750.

R Legovini, A. (2010). Development impact evaluation initiative: A world bank–wide strategic approach to enhance development effectiveness. Draft Report to the Operational Vice Presidents, *World Bank*, Washington, DC.

c. Fintech (November 12)

* Di Maggio, M., & Yao, V. (2021). FinTech borrowers: Lax screening or cream-skimming?. *The Review of Financial Studies*, 34(10), 4565-4618.

* Gopal, M., & Schnabl, P. (2022). The rise of finance companies and fintech lenders in small business lending. *The Review of Financial Studies*, 35(11), 4859-4901.

* Erel, I., & Liebersohn, J. (2022). Can FinTech reduce disparities in access to finance? Evidence from the Paycheck Protection Program. *Journal of Financial Economics*, 146(1), 90-118.

R Balyuk, T. (2023). FinTech lending and bank credit access for consumers. *Management Science*, 69(1), 555-575.

R Chen, S., & Lee, D. (2023). Small and vulnerable: SME productivity in the great productivity slowdown. *Journal of Financial Economics*, 147(1), 49-74.

R Cornelli, G., Frost, J., Gambacorta, L., Rau, P. R., Wardrop, R., & Ziegler, T. (2023). Fintech and big tech credit: Drivers of the growth of digital lending. *Journal of Banking & Finance*, 148, 106742.

d. Sustainable finance (November 19)

* Bauer, R., Ruof, T., & Smeets, P. (2021). Get real! Individuals prefer more sustainable investments. *The Review of Financial Studies*, 34(8), 3976-4043.

* Bolton, P., & Kacperczyk, M. (2021). Do investors care about carbon risk?. *Journal of financial economics*, 142(2), 517-549.

* Fioretti, M. (2022). Caring or Pretending to Care? Social Impact, Firms' Objectives, and Welfare. *Journal of Political Economy*, 130(11), 2898-2942.

*Geczy, C.; Jeffers, J. S.; Musto, D. K. ad Tucker, A. M. (2021). "Contracts with (Social) benefits: The implementation of impact investing". *Journal of Financial Economics*, vo. 142, pp. 697-718.

R Stroebe, J. and Wurgler, J. (2021). "What do you think about climate finance?". *Journal of Financial Economics*, vol. 142, pp. 487-498.

R Houston, J. F., & Shan, H. (2022). Corporate ESG profiles and banking relationships. *The Review of Financial Studies*, 35(7), 3373-3417.

R Wang, Y., & Li, M. (2022). Credit policy and its heterogeneous effects on green innovations. *Journal of Financial Stability*, 58, 100961.

R Baker, M., Egan, M. L., & Sarkar, S. K. (2022). How Do Investors Value ESG? (No. w30708). *National Bureau of Economic Research*.

R Hong, H. G.; Wang, N. and Yang, J. (2021). "Welfare Consequences of Sustainable Finance". *Columbia Business School Research Paper* Forthcoming.

R Pástor, L., Stambaugh, R. F., & Taylor, L. A. (2021). Sustainable investing in equilibrium. *Journal of Financial Economics*, 142(2), 550-571.

R Quatrini, S. (2021). "Challenges and opportunities to scale up sustainable finance after the COVID-19 crisis: Lessons and promising innovations from science and practice". *Ecosystem Services*, vol. 48.

e. Impact Investing (November 26)

* Barber, B. M., Morse, A., & Yasuda, A. (2021). Impact investing. *Journal of Financial Economics*, 139(1), 162-185

* Busch, T., Bruce-Clark, P., Derwall, J., Eccles, R., Hebb, T., Hoepner, A., Klein, C., Krueger, P., Paetzold, F., Scholtens, B. and Weber, O., (2021). Impact investments: a call for (re) orientation. *SN Business & Economics*, 1, pp.1-13.

* Heeb, F., Kölbel, J. F., Paetzold, F., & Zeisberger, S. (2023). Do investors care about impact?. *The Review of Financial Studies*, 36(5), 1737-1787.

* Kollenda, P. (2022). Financial returns or social impact? What motivates impact investors' lending to firms in low-income countries. *Journal of Banking & Finance*, 136, 106224.

R Arjaliès, D. L., Chollet, P., Crifo, P., & Mottis, N. (2022). The Motivations and Practices of Impact Assessment in Socially Responsible Investing: The French Case and its Implications for the Accounting and Impact Investing Communities. *Social and Environmental Accountability Journal*, 1-29.

R Dyck, A., Lins, K. V., Roth, L., & Wagner, H. F. (2019). Do institutional investors drive corporate social responsibility? International evidence. *Journal of Financial Economics*, 131(3), 693-714.

R Chowdhry, B., Davies, S. W., & Waters, B. (2019). Investing for impact. *The Review of Financial Studies*, 32(3), 864-904.

R Hartzmark, S. M., & Sussman, A. B. (2019). Do investors value sustainability? A natural experiment examining ranking and fund flows. *The Journal of Finance*, 74(6), 2789-2837.

R Tang, D. Y., & Zhang, Y. (2020). Do shareholders benefit from green bonds?. *Journal of Corporate Finance*, 61, 101427.

f. Impact Measurement (December 3)

* [How IFC Measures the Development Impact of Its Interventions Pp. 1-20.](#)

* Ayyagari, M.; Juarros, P.; Martinez P., Maria S. and Singh, S. (2021). "Access to Finance and Job Growth: Firm-Level Evidence across Developing Countries". *Review of Finance* Pp. 1473-1497.

* Heath, D., Macciocchi, D., Michaely, R., & C. Ringgenberg, M. (2023). Does socially responsible investing change firm behavior?. *Review of Finance*, 27(6), 2057-2083.

* Oehmke, M., & Opp, M. M. (2024). A theory of socially responsible investment. *Review of Economic Studies*.

R IFC (2015): "Promoting Financial Inclusion in India: Evidence from Au Financiers (India) Limited". Washington, DC: World Bank Group.

R IFC (2021). "Small Business, Big Growth: How Investing in SMEs Created Jobs". Washington, DCC: World Bank Group.

g. ESG regulation (December 3)

*Berg, F.; Kölbel, J. F. and Rigobon, R. (2022). "Aggregate Confusion: The Divergence of ESG Ratings". *SSRN Working Paper*.

R Amel-Zadeh, A. and Serafeim, G. (2019). "Why and How Investors Use ESG Information: Evidence from a Global Survey". *Financial Analysts Journal*, vol. 74, pp. 87-103.

R Avramov, D.; Cheng, S.; Lioui, A. and Tarelli, A. (2021). "Sustainable investing with ESG rating uncertainty". *Journal of Financial Economics*. Pp. 1-28.

R Boffo, R. and Patalano, R. (2020). "ESG Investing: Practices, Progress and Challenges". *OECD Paris*.

R Kotsantonis, S. and Serafeim, G. (2019). "Four Things No One Will Tell You About ESG Data". *Journal of Applied Corporate Finance*, vol. 31, no. 2, pp. 50-58.

R Fancy, Tariq. "Tariq Fancy on the failure of green investing and the need for state action". *The Economist*, 4 Nov. 2021.

R Norges Bank (2021). "The asset pricing effects of ESG investing." *Discussion note*. *Norges Bank*, 2021

Building Bridges week December 9-12