

Hong Kong University of Science and Technology
Department of Finance
FINA691F Global Economy and Emerging Markets

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Text: None required. Photocopied materials available. Weekly reading of Barron's and daily reading of Financial Times is mandatory.

Prerequisites: Basic Accounting and Basic Economics

Course Objectives:

The objectives are threefold:

- 1) The first is to introduce the student to emerging markets by using a map; Maps help us to understand the influences of civilizations, cultures and religions in how emerging markets develop.
- 2) The second is to treat emerging markets like a human body. What can we use to take the temperature, pulse and blood pressure of an emerging market to tell if it is healthy or sick.
- 3) The third is to use actual experience, real markets and live research to discover more about some of the most important emerging markets right now: Indonesia, China and India. We focus on excessive leverage which is always the main cause of financial crises.

Course Description:

The course will focus half on today's world and half on theory. The mid term will be a 1 and ½ hour test based on course discussion and reading material. The final exam will be a presentation on a stock in a developing country – should we buy it or sell it? We will use credit testing on the stock and create a macroeconomic framework to see if the country is right for investment. Crises are borne of the balance sheet and NOT the income statement. So, we will focus on credit in this course.

Grade:

Class participation will be 40% of the grade. Class participation is a crucial part of the grade. Mid term will be 30% and the final will be an in class presentation which will count for 30%. The Mid-term will be held during regular mid term schedules. The final exam will be held at the last meeting of the class.

Text:

Publications of Mr. Schulte will be provided at cost.

Lesson 1 – Overview and macro

Part 1: Intro. Course material. Themes in course. Explanation of mid term and final exam project. Looking at the map – maps tell us everything.

15 minute Break

Part 2: Bill Easterley, Samuel Huntington, Bernard Lewis, Jared Diamond.

Huntington: What is GEMS civilizations?

Easterley: What are the problems of GEMS development aid?

Lewis: What is the Problem of Islam?

Diamond: Collapse: How Countries Choose to Fail or Succeed?

15 minutes at the end: Discussion of GEMS stock markets

Lesson 2 – Civilization, Culture, Religion and other macro considerations?

Part 1: Bill Easterley, Samuel Huntington, Bernard Lewis.

How civilization, culture and religion create economic prosperity – or not.

How the World Bank and IMF tried and failed to bring prosperity.

Providing incentives

15 minute Break

Part 2:

We look at the macro framework. What creates liquidity? How important is it?

15 minutes at the end: Discussion of current events in GEMS stock markets

Lesson 3 The credit side of emerging markets – how do we detect a crisis?

Part 1:

How do we look at financial markets – the macro framework

What is leverage? How do we measure it? What is credit testing?

15 minute Break

Part 2:

The Altman Z score – does it work in emerging markets?

Does it work in China? Does the A share market have credit problems?

15 minutes at the end: Discussion of GEMS stock markets

Lesson 4 Valuations in emerging markets? What works?

Part 1:

Credit testing: how do we apply it to a stock? What does it tell us?

What works in determining stock valuations in a market?

What works as a tool of valuation during a crisis

15 minute Break

Part 2:

Credit testing continued. Do other valuation parameters like EVA work in emerging markets?

15 minutes at the end: Discussion of GEMS stock markets

Lesson 5: China: The Mother of All Emerging Markets

Part 1: China – the monster emerging market of them all. How does China change as the US changes?

15 minute Break

Part 2: How does credit play a role in the development of China?

15 minutes at the end: Discussion of GEMS stock markets

Lesson 6 : India and Indonesia – Is this “Chindonesia”?

Part 1: Looking at China relative to India and Indonesia. How are they different? How are they similar?

15 minute Break

Part 2: Examining China and its relationship to other emerging markets. How will China be different compared to past emerging markets?

15 minutes to discuss final exam presentation

15 minutes at the end: Discussion of GEMS stock markets

Lesson 7: Why some make and others do not

Part 1: What are the pitfalls in emerging market growth. Who has failed? Why? Examples of Argentina, Russia, Central Africa.

Examining India & Indonesia and their relationship to China

15 minute Break

Part 2: Other reasons why countries do not make it – environmental degradation, civil war, kleptocracy, ecocide.

15 minutes at the end: Discussion of GEMS stock markets

Lesson 8: Final exam presentation

Part 1: Final exam presentation for all students.

15 minute Break

Part 2: Final Exam presentation for students.