

## International Financial Markets, FNCE 219/719

Fall 2009 Professor Martin Evans

Office hours: Wednesday 1:00 to 3:00 pm, SH/DH 2336

Email: [evansma@wharton.upenn.edu](mailto:evansma@wharton.upenn.edu) or [evansm1@georgetown.edu](mailto:evansm1@georgetown.edu)

Phone: 215-746-7670

**Prerequisites:** For 219: FNCE 100, FNCE 101 or ECON 4, STAT 101

For 719: FNCE 601 + 602 (FNCE 602 can be taken concurrently)

### Reading Materials

The Textbook for the course is International Financial Management, 5<sup>th</sup> Edition, by Eun and Resnick; it is available at the bookstore. Lecture notes, additional readings, homework questions and assignments will be available on Webcafe.

### Course Requirements

- **Two mid-term Examinations** are scheduled for

Thursday, **October 22<sup>nd</sup>** in class

Thursday, **December 3<sup>rd</sup>** in class

Each exam will count for 35% of the final grade. Unexcused absences from exams will result in a zero score in the calculation of the final grade. Excused absences from exams require my approval prior to the exam. Exams are closed book, but you may prepare a letter sized sheet (8.5 by 11) with your notes.

- **Four Written Assignments** will count together for 25% of the final grade; the lowest assignment score will be dropped. Each student is expected to join a project group consisting of 3-5 members. The project groups will jointly prepare and submit written assignments. The individuals constituting a group must remain the same over the semester, so please choose your groups carefully. To help reduce problems due to free-riding etc., group members will be asked near the end of the term to evaluate the participation of the other group members. This confidential evaluation may affect the individual grade obtained for the assignments.

Assignments will be distributed in class about a week before they are due, and will then be available on the class webpage. **LATE ASSIGNMENTS WILL NOT BE ACCEPTED.** The written assignments will be discussed in class and answers will not be distributed.

- **One Short Quiz** of about 15 minutes will take place during the last class, on Thursday December 10. This quiz will count for 5% of your final grade and will cover material from the preceding lecture.

## **Regrading exams and graded assignments**

Any request for regrading must be submitted in writing within two weeks from the date the exams or assignments have been returned. The exam or assignment should be placed in my mailbox in the Finance Department. The request for regrading must be very specific. When you request a regrade, the entire exam or assignment may be regraded. Unambiguous errors in grading will be promptly corrected. In order to avoid possible attempts to alter exams before a regrade is requested, a substantial fraction of the exams will be photocopied.

## **Homework**

Several problem sets will be assigned during the semester and you will be given the answers to these. The purpose of these exercises is to give you the opportunity to make sure you fully understand topics covered in class. By regularly doing these exercises you get excellent training for exams and assignments and you will maximize your return from this class. These problem sets will not be graded, and you should feel free to work in groups.

## **Course Outline**

This class is about the international financial markets and their financial instruments. The central themes are currency exchange rates, related derivative securities and international asset allocation. The class will adopt the perspective of international investors as well as the perspective of internationally active firms.

### **PART 1: INTRODUCTION**

1. Introduction: Overview of current world financial crisis
2. History of the International Financial System
3. Derivatives Usage

### **PART 2: EXCHANGE RATES & THE WORLD ECONOMY**

4. Spot FX Markets: Manipulating FX rates, Market structure, Arbitrage
5. Forward Contracts: Valuation and Hedging
6. Exchange Rate Theories and Evidence: Purchasing Power Parity, Balance of Payments, Market Microstructure
7. Eurocurrency Markets, Forward Contracts and Interest Rate Parity
8. Expectations, Forward Rates and Interest Rates

### **PART 3: FX DERIVATIVES**

9. Currency Futures: Futures markets, hedging and speculating with futures
10. Currency Options, Put-call parity, hedging with options, option pricing issues, the Black-Scholes model
11. Currency and Interest Rate Swaps: Examples and motivations for swaps, swap valuation
12. Specialized FX derivatives: US Dollar Index contract, Quantos, International asset allocation
13. Carry trades, risk reversal, hedged carry trades
14. International Equity Portfolios: International diversification, Currency Overlays

Current events, including the on-going world financial crisis, will be discussed throughout the semester.