

The Wharton School
University of Pennsylvania
Spring 2010

International Financial Markets
FNCE 219

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TA office hours will be announced in class.

A webcafe site has been set up where course materials including class notes will be distributed. The website is: <http://webcafe.wharton.upenn.edu/> If you are a non-Wharton student unfamiliar with webcafe you may need to create a Wharton computing account before you can use webcafe. You can open an account at: <http://accounts.wharton.upenn.edu/>

Please read the syllabus carefully since it presents the philosophy of the course, provides a broad outline of the issues, and discusses course requirements. Note that you are responsible for reading and understanding all course requirements.

What do you learn through this course?

The purpose of this course is to understand the instruments in investing in international markets. We examine hedging strategies by companies in using foreign exchange instruments and investment of capital through international financial markets. We also examine how investors can use different tools to invest internationally and analyze gains and shortcomings from international diversification and investments.

This course is oriented towards problems. It is both theoretical and practical; the theory is presented so as to provide a framework to analyze and understand practical investment situations. There will be assignments and examples so as to apply the theory learned. At the end of the course, you will be asked to make a case presentation to the class.

Prerequisites...

The course pre-requisites are the financial management courses and the core statistics course or their equivalents. Be prepared to work hard and absorb advanced concepts and ideas.

Also...

Please keep in mind that there is new material and in this class and, therefore, will involve a fair deal of **experimentation**. I welcome your feedback and participation in this experiment and I hope and think we will have fun.

Office Hours

I will stay around after classes to try to answer questions. I will also allocate first few minutes of class time to answer questions. The TA will have office hours. In many weeks, and definitely before exams, TA will have additional office hours. I will have office hours on Monday and Wednesday afternoons. You can also email your questions to us and we will be responsive. If you have administrative questions (like missing the syllabus, problem set, etc.), please check webcafe and ask the TA for help. If you cannot make the office hour, or if you have personal issues you want to discuss, you can schedule an appointment with me through email.

Course Requirements

Exams:	65%
Assignments:	18%
Group presentation exercise:	7%
Class participation:	10%

Out of the 65% allocated to exams, the split between the two exams are as follows.

The exams are worth $\max(0.5*\text{exam1}+0.5*\text{exam2}, 0.3*\text{exam1}+0.7*\text{exam2})$

where exam1 and exam2 are the standardized scores of the two exams.

As a result, poor performance in exam 1 and good performance in exam 2 will trigger higher weight in exam 2. Thus, doing better on one of the exams provides some protection against a bad performance on the other exam.

There may also be a few ungraded case write-ups or practice problems during the semester.

Notes on Assignments

Assignments are due before class on the dates listed on the schedule. Late submission will not be accepted. Assignments should be typed; it will be discussed in class. Lowest grade will be dropped.

Study group

Team work is an important part of the learning process. Each student is expected to join a study group consisting of 2 to 4 people. The group will jointly prepare the written assignments and presentation. All group members should be prepared to answer questions in class. Groups have to be formed by January 25. Members of the group should remain the same throughout the semester, so please choose your group members

carefully. Group members can come from any one of the three sections of the class. However, all group members are supposed to be present in the same section during presentations. If you have problem finding a group, please let me know.

Regrades

Grades are non-negotiable. If you feel that an error has been made in the grading of the question on an examination you can submit the exam in question for a regrade. Please note that the entire exam will be regraded for accuracy.

Regrade requests have to be submitted no more than one week after the examination in question was returned to you. Please submit the examination in an envelope to the TA and on the outside label it “FNCE 219: Exam # Regrade Request”. The TA and I will do our best to review the paper promptly.

Notes on Group presentation

Group presentation will be done at the end of the semester. More details will be given in class.

Notes on Class participation

Class participation is part of the grade. There are many ways to do this, including coming to class, raising questions in class, joining in class discussions and responding to questions raised during class. Attendance is not explicitly recorded for the class or the section, but it constitutes a crucial learning experience for the class.

In class discussions, our collective goal will be to understand the classroom materials and explore a variety of reasonable approaches and solutions. Grades are assigned on the basis of class participation that contributes to this process. Emphasis is not on the duration of your “air time”, or on getting the “right” solution (typically, there is no “right” solution). Rather, I will be looking for well reasoned view points, constructive questions, or other relevant insights that enrich the discussion.

Code of Ethics

Academic integrity is taken seriously. Submitted assignments must be your work only. You may use firm specific or market data for your analysis. However, you should not use any old notes or solutions to problems from any section of this course or courses in other universities. Failure to observe this rule will at least result in a zero for the assignment, and may also result in a failure of the class and referral to the Office of Student Conduct.

Make up exam

A student who does not show up in an exam will be given a zero for that exam. There are no planned make-ups. Hence, unexcused absences from exams will result in a zero score in the calculation of the final grade. The exam times are fixed. If you have a conflict, you must inform me by the end of the second week of the course. Excused absences from exams must be approved prior to the exam. In an emergency, I need written documentation (hospital receipt, etc.).

Students with Disability

If you have a disability that requires special testing accommodations or other classroom modifications, please notify me by no later than the second week of classes. We will do our best to accommodate you in any way.

Textbooks and Reference

The required textbook is:

Eun and Resnick, International Financial Management, 5th Edition, McGraw Hill

Textbooks will also be placed in the library under the course name.

I hope to get to know you and have discussions in a relaxing environment. We will set up meals throughout the semester. There will be sign-up sheets in webcafe.

Topics Covered

The following page consists of the schedule of topics to be covered. It should be noted, however, that this schedule is subject to change if required. Each topic takes about a week to cover. I may slow down or speed up as the case may be depending on the progress of the class. Additional readings will be distributed on web café or during class. The cost of the handouts distributed in class will be billed separately at the end of the semester.

1. Introduction: International Financial Markets

Readings: Eun and Resnick Ch.1, 2

2. Spot Foreign Exchange Market

Readings: Eun and Resnick Ch. 5 (pp.108-125)

3. Eurocurrency Markets, Foreign Currency Contracts and Interest Rate Parity

Readings: Eun and Resnick Ch. 6 (pp.134-142), Ch.11 (pp.262-275)

4. Forward Contracts: Valuation and Hedging

Readings: Eun and Resnick Ch. 5 (pp.125-133)
Forward contracts in perfect markets (Study.net)

5. Currency Futures

Readings: Eun and Resnick Ch. 7 (pp.165-174)

6. Currency Options

Readings: Eun and Resnick Ch. 7 (pp.174-191)

7. Interest Rates and Currency Swaps

Readings: Eun and Resnick Ch.14

8. Exchange Rate Theories and Evidence

Readings: Eun and Resnick Ch.3, Ch. 6 (pp.142-158)

9. International Equity Portfolio

Readings: Eun and Resnick Ch. 13, 15

10. Topic: Expectations and Interest Rates

Readings: Eun and Resnick Ch.6 (pp.149-158)

11. Topic: International Financial Crises

Readings: Financial Crisis (study.net)
Eun and Resnick Ch.11 (pp.275-288)

Dates:

Jan 18 – Martin Luther King day. University holiday.

March 8 – March 14 Spring Break.

Assignments are due Jan 27, Feb 8, Feb 17, Mar 15, Mar 29 and April 7.

Exam 1: February 22 (6-8pm)

Exam 2: April 12 (6-8pm)

Presentation: April 21, 26

Wed Jan 13 First class

Mon Jan 18 Martin Luther King day - no class

Wed Jan 20

Mon Jan 25

Wed Jan 27 Assignment 1 due

Mon Feb 1

Wed Feb 3

Mon Feb 8 Assignment 2 due

Wed Feb 10

Mon Feb 15

Wed Feb 17 Assignment 3 due

Mon Feb 22 Exam 1

Wed Feb 24

Mon Mar 1

Wed Mar 3

Mon Mar 15 Assignment 4 due

Wed Mar 17

Mon Mar 22

Wed Mar 24 Assignment 5 due

Mon Mar 29

Wed Mar 31

Mon Apr 5

Wed Apr 7 Assignment 6 due

Mon Apr 12 Exam 2

Wed Apr 14

Mon Apr 19

Wed Apr 21 Presentation

Mon Apr 26 Presentation