

Syllabus
Wharton School of Business
International Finance
FNCE 219 Spring 2011
Professor Larry Gorman
LRGorman@wharton.upenn.edu
Office: 2431 Telephone: 215.746.8569
Office Hours: To Be Announced.

This course examines the foreign exchange (FX) markets, the nature of FX risks, then applies the primary concepts to (i) multinational corporations, and (ii) speculators. The course explores the determination of spot and forward exchange rates and the relationships that link exchange rates, the prices of goods, interest rates, and inflation rates throughout the world. Various concepts of FX risk are explored. Hedging FX risk via forwards, futures, spot–forward swaps, interest rate swaps, currency swaps, and options is examined. Emphasis is placed on valuing derivative securities at any point in time, often by means of no-arbitrage arguments. Construction of synthetic options and forwards is explored. Overall, the course provides a substantial introduction to the concepts involved in foreign exchange risk management.

Prerequisites:

You should be very proficient in the mechanics of present and future value analysis, stock pricing, the computation of IRR's, and the pricing of bonds (both coupon bearing and zero coupon bonds). In addition, understanding of and ability to construct the yield curve (from zero coupon bond prices) and an understanding of real versus nominal analysis (i.e. adjusting explicitly for inflation) will prove to be beneficial. Knowledge of elementary concepts from microeconomics is useful for developing intuition.

Textbook: *International Financial Management*, by Robert J. Hodrick and Geert Bekaert (required)
Pearson, Prentice Hall. 1st Edition.

Course Requirements:

- A prerequisite exam is worth 5% of your grade. It is given the second day of class.
- Unannounced quizzes are worth 10% of your grade.
- A spreadsheet based assignment is worth 10% of your grade.
- The first midterm exam (approx. week 5) is worth 25% of your grade. *This exam is closed book and closed notes.*
- The second midterm exam (approx. week 10) is worth 25% of your grade. *This exam is closed book and closed notes.*
- The comprehensive final exam is worth 25% of your grade. *This exam is closed book and closed notes..*
- I will not reschedule exam dates except in the most extreme of circumstances (having three finals on the same day is not an adequate reason).

Grading:

Grading will be on a “quasi-curve” basis. That is, I have a distribution in mind (35% A's, 40% B's, 15% C's, 10% D's and F's) but I reserve the right to depart from this possible distribution. The grade distribution will have more A's and B's than proposed above if the overall class performance on the exams is strong, and conversely, the grade distribution will have less A's and B's than proposed above if the class performance is weaker than expected. In any event, scoring below 50% will constitute a failing grade in the course.

Schedule:

We will primarily focus on ten chapters. Specifically, we will focus on chapters 1 to 3, 6 to 10, 20, and 21. If time permits, we will cover a few of the remaining chapters. The final exam will be comprehensive. The exact dates of the midterms will be announced in class as the coverage of material dictates.