

International Financial Markets, FNCE 219/719
University of Pennsylvania
The Wharton School

Fall Term 2011
Professor Urban J. Jermann

The main topics of this class are foreign exchange markets, related derivative securities, and international asset allocation. The class will consider issues of interest for international investors as well as for internationally active firms.

Office hours: Wednesday 1:10 to 3:00 pm, SH/DH 2327
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Prerequisites For 219: FNCE 100, FNCE 101 or ECON 4, STAT 101
For 719: FNCE 601 + 602 (FNCE 602 can be taken concurrently)

Materials

- (1) A customized book with readings has been prepared for this class by McGraw-Hill Create, 2011 version, ISBN # 978-1121-219427, it is available at the bookstore.
- (2) 2 chapters from the book *International Finance Theory into Practice* by Piet Sercu are available on www.study.net
- (3) Lecture notes, additional readings, assignments, homework questions and answers, and other material will be made available on the class webpage. There is no bulkpack for this class. You may want to print lecture notes beforehand and bring them to class.
- (4) A small number of handouts will be distributed in class. There will a bursar-billed fee for these that is estimated to be less than \$10.

Course Requirements

- **Two Examinations** are scheduled for
Tuesday, **October 25**, in class
Monday, **December 19, 6pm**.

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 approval prior to the exam. Exams are closed book, but you may prepare a letter sized sheet (8.5 by 11-inch) with your notes.

- **Five Group Assignments** count together for 20% 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 available on the class webpage at least one week before they are due. **LATE ASSIGNMENTS WILL NOT BE ACCEPTED.** The written assignments will be discussed in class and answers will not be distributed.

• **Two Individual Assignments** count for 10% of the final grade. Individual assignments contain questions and problems that students work out and hand in individually.

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 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

Each of the following numbered topics covers approximately one week of classes.

FX basics

1. Introduction: Derivative usage
2. Spot Foreign Exchange Markets
 Manipulating exchange rates, FX market structure, arbitrage
3. Eurocurrency Markets, Forward Contracts and Interest Rate Parity
4. Forwards: Valuation, Hedging and Markets

FX derivatives

5. Currency Futures: Futures markets, hedging and speculating with futures
6. Currency Options
 Put-call parity, hedging with options, option pricing issues, Black-Scholes model
7. Currency and Interest Rate Swaps
 Examples and motivations for swaps, swap valuation
8. Specialized FX derivatives: US Dollar Index contract, quantos

International asset allocation / Exchange rate theories

9. Exchange Rate Theories and Evidence: Purchasing Power Parity, Balance of Payments
10. International Equity Portfolios: International diversification, hedging fx risk
11. Expectations, Forward Rates and Interest Rates
 Uncovered interest parity, carry trades, risk reversal

Several current event topics are treated at various points in the semester.

Classes, Assignments and Exams

Thu, Sept 8	
Tue, Sept 13	
Thu, Sept 15	
Tue, Sept 20	
Thu, Sept 22	Individual Assignment #1 due
Tue, Sept 27	
Thu, Sept 29	Group Assignment #1 discussed, project groups are fixed
Tue, Oct 4	
Thu, Oct 6	
<i>Tue, Oct 11</i>	<i>No Class: Fall Break</i>
Thu, Oct 13	
Tue, Oct 18	Group Assignment #2 discussed
Thu, Oct 20	
Tue, Oct 25	Exam 1— in class
Thu, Oct 27	
Tue, Nov 1	
Thu, Nov 3	Group Assignment #3 discussed
Tue, Nov 8	
Thu, Nov 10	
Tue, Nov 15	Individual Assignment #2 due
Thu, Nov 17	
Tue, Nov 22	Group Assignment #4 discussed
<i>Thu, Nov 24</i>	<i>No Class: Thanksgiving</i>
Tue, Nov 29	
Thu, Dec 1	
Tue, Dec 6	
Thu, Dec 8	Group Assignment #5 discussed
Monday Dec 19	Exam 2