

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

Fall Term 2012  
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 1:15 to 3:00 pm, SH/DH 2327  
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Webpage: <http://finance.wharton.upenn.edu/~jermann/teaching.html> (Canvas has a link to the class webpage)  
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**Prerequisites** For 219: FNCE 100, FNCE 101 or ECON 102, STAT 101  
For 719: FNCE 611(or 612), 1 cu of Corporate Finance  
FNCE 613, at least 0.5 cu of Macroeconomics (can be concurrent)

**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](http://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.

**Course Requirements**

- **Two Examinations** are scheduled for  
Thursday, **October 18**, in class  
Thursday, **December 13, 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 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 6

Tue, Sept 11

Thu, Sept 13

Tue, Sept 18

Thu, Sept 20

Individual Assignment #1 due

Tue, Sept 25

Assignment #1 discussed, project groups are fixed

Thu, Sept 27

Tue, Oct 2

Thu, Oct 4

Tue, Oct 9

Thu, Oct 11

Group Assignment #2 discussed

Tue, Oct 16

Thu, Oct 18

**Exam 1— in class**

*Tue, Oct 23*

*No Class: Fall Break*

Thu, Oct 25

Tue, Oct 30

Thu, Nov 1

Group Assignment #3 discussed

Tue, Nov 6

Thu, Nov 8

Tue, Nov 13

Individual Assignment #2 due

Thu, Nov 15

Tue, Nov 20

Group Assignment #4 discussed

*Thu, Nov 22*

*No Class: Thanksgiving*

Tue, Nov 27

Thu, Nov 29

Tue, Dec 4

Thu, Dec 6

Group Assignment #5 discussed

Thursday Dec 13

**Exam 2**