

## International Financial Markets Spring 2015

### Course Overview

This class provides a rigorous treatment of the international financial markets. The class focuses on (i) financial instruments for hedging and speculation, and (ii) risks and benefits in investing in international financial markets. In particular, the course examines foreign exchange markets, related derivative securities, hedging strategies using foreign exchange instruments, and investments in financial capital markets. Topics include asset allocation, asset pricing models and portfolio performance evaluations in international markets, forwards, futures, and options, international fixed income and sovereign debt. This course focuses on the financial theories and empirical evidences that are useful for investment decisions and hedging decisions. The course should be valuable from the perspective of the individual investor, the corporate financial manager, and the investment manager. The class format, for the most part, will be based on the lecture system with several case discussions. The class assignments are quantitative in nature and basic knowledge of statistics is assumed.

### Course Materials and Webpage

- Required: Lecture notes in pdf format will be posted on Canvas.
- Required: Assignments and datasets are to be posted on Canvas.
- Optional: Additional reading materials are to be posted on Canvas.
- Optional: Bekaert & Hodrick, International Financial Management, 2<sup>nd</sup> edition, Pearson.

### Office Hours and TA

- Office hours are on Wednesdays 5:00-6:00pm or by appointment at SH-DH 2325.
- The TAs for this class will be announced separately. They will hold weekly office hours. In addition one of the TAs may conduct optional recitations for helping with problem sets, midterm, and final exams. Time and location will be announced on Canvas.

## Course Requirements

- **Lectures:**

- Lectures are on Mondays and Wednesdays.
- Section FNCE-219-A: 10:30-12:00am JMHH 270.
- Section FNCE-719-A: 1:30-3:00pm JMHH 265.
- Section FNCE-219-B: 3:00-4:30pm JMHH G94.

- **Readings:**

- I will post the lecture notes for each class, at the latest, on the day before the class. Reading the first few slides will be helpful.
- I will post additional reading materials on Canvas. These research papers and newspaper articles could be useful in providing background information or adding some depth to the materials covered in class.

- **Assignments:**

- There are six problem sets, totaling 30% toward your final grade. Here is a list of problem sets with *tentative due dates* in parentheses:
  1. DenCarr.
  2. Futures Hedging.
  3. AIFS.
  4. Disney.
  5. Empirical Analysis of International Returns: Alpha, Beta, and  $R^2$ .
  6. PPP-Momentum
- Problem sets are to be done in groups with no less than two and no more than four students.
- Each problem set must be *handed in* to the TA before 5pm of the due day.
- Late assignments will not be accepted.
- In addition, several individual problem sets will be given as practice (with some possibly required to be handed in).

- **Exams:**

- The midterm will be given on **Wednesday February 25th, 4-6PM**, **No class on that day**.
- The final will be given on **Monday May 4th, 3-5PM**.
- Both exams are closed-book. Students will be allowed to bring one 8.5" × 11" two-sided sheet of notes into the midterm and two sheets of such notes into the final.

- There are no planned make-ups. Unexcused absences from exams will result in a zero score. Excused absences from exams must be approved **prior** to the exam.

- **Grades:**

- The final grade will be determined according to the following weighting scheme:
  - \* 15% Class participation
  - \* 30% Problem sets
  - \* 55% Exams: score is applied to the highest of  $[0.50M+0.50F]$  or  $[0.35M+0.65F]$
  - \* Regrades must be submitted with a written explanation no later than two weeks after assignment/exam is returned.

### Course Calendar

| Week | Mo   | Class | Topic                     | Wk   | Class    | Topic                        |
|------|------|-------|---------------------------|------|----------|------------------------------|
| 1    |      |       |                           | 1/14 | 1        | Introduction                 |
| 2    | 1/19 |       | No class                  | 1/21 | 2        | Exchange Rates               |
| 3    | 1/26 | 3     | Forward Rates             | 1/28 | 4        | Forward Rates 2              |
| 4    | 2/2  | 5     | Hedging                   | 2/4  | 6        | Futures                      |
| 5    | 2/9  | 7     | Futures-2                 | 2/11 | 8        | Futures-3                    |
| 6    | 2/16 | 9     | Option 1                  | 2/18 | 10       | Option 2                     |
| 7    | 2/23 | 11    | Option 3                  | 2/25 | No Class | Midterm Exam-evening         |
| 8    | 3/2  | 12    | Option-4                  | 4/4  | 13       | Swaps                        |
| 9    | 3/9  |       | No Class                  | 3/11 |          | No Class                     |
| 10   | 3/16 | 14    | Swaps 2                   | 3/18 | 15       | Swap 3                       |
| 11   | 3/23 | 16    | Parity Conditions & BoP   | 3/18 | 17       | Forward Premia & UIP         |
| 12   | 3/30 | 18    | Sovereign Debt            | 4/1  | 19       | Sovereign Debt               |
| 13   | 4/6  | 20    | International Investments | 4/8  | 21       | Carry trades                 |
| 14   | 4/13 | 22    | International Equity      | 4/15 | 23       | International Equity         |
| 15   | 4/20 | 24    | International Returns     | 4/22 | 25       | International Bond Portfolio |
| 16   | 4/27 | 26    | Black-Litterman-Model     | 4/29 | 27       | Review                       |

## Course Schedule (Tentative)

1. Introduction
2. Market for Exchange Rates
3. Arbitrage across currencies
4. Forward Rates-definition and market structure, covered interest rate parity
5. Valuation and Hedging with Forward Rates
6. Speculation with Forward Rates
7. Futures markets
8. Futures-dynamic hedging and speculation
9. Options-market structure, put-call parity
10. Hedging with Options
11. Options, The Black-Scholes Model and Exchange-Traded Options
12. Options, speculation and pricing
13. Volatility models
14. Swaps, market structure and pricing
15. Swaps, hedging and P&L
16. VAR
17. Parity conditions and exchange rate determination
18. Balance of payment approach and PPP
19. Uncovered interest parity, forward/risk premia, and carry trades
20. Sovereign Debt
21. Sovereign Debt & Greece and Europe, China
22. International Investing – MVF and home bias
23. Evaluating investment performance
24. International returns: Alpha, beta, and  $R^2$
25. International Bond portfolios

26. The Black-Litterman Asset Allocation Model

27. Review