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**University of Pennsylvania
The Wharton School
Professor Urban Jermann**

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SH-DH 2327

International Financial Markets

**FNCE 219/719
Fall 2020**

This class focuses on international aspects of financial markets and the effects of trends in technology, globalization, and regulation.

Currency exchange rates have a major impact on international transactions and on the environment businesses operate. The class studies the markets for foreign exchange. As the most liquid financial market, there are a variety of derivative contracts available on currencies such as forwards, futures, options and swaps. The class provides in-depth perspectives on these.

For many firms, exchange rates are primarily viewed as risks affecting operational and financial positions that need to be managed. Currency risk management is one of the class' main focuses.

For investors, currencies as well as international equity and bond markets represent opportunities that complement domestic investments. The class studies currency investment strategies such as carry trades, momentum and fundamental approaches. The class considers the optimal exposures to international stocks and bonds, and the role of currency risks in international portfolios.

Cryptocurrencies are a potentially disruptive new type of financial instrument. The class studies these from a finance perspective.

The target audience includes financial officers, banking, consulting, and investors.

FNCE 219/719 builds on skills acquired in introductory finance, economics and statistics classes. However, some initial review of major concepts used is provided. The class format, for the most part, is lecture-based, with several case discussions. Class assignments are quantitative in nature.

Office hours: Monday 1:30 to 3:00 pm, or by appointment

Webpage: <http://finance.wharton.upenn.edu/~jermann/teaching.html> (Canvas has a link to the class webpage)

Classes take place online, through Zoom.

Please follow these rules:

- turn the camera on
- keep the microphone muted, unmute yourself to talk
- use chat to everyone (or host) if you want to speak: “question”, “Q”, “comment” ...

Prerequisites

The following introductory courses are recommended but not required

For 219: FNCE 100, FNCE 101 or ECON 102, STAT 101

For 719: FNCE 611(or 612), 1 cu of Corporate Finance

FNCE 613 or 615, at least 0.5 cu of Macroeconomics

Materials

- A customized eBook is available from <https://create.mheducation.com/shop/> by entering the ISBN #: “9781307612776” or “FNCE 219/719” in the “Looking for New materials Area?”. Payment is by credit card and you will then get an email with the information about how to access the eBook. More detailed purchasing and downloading instructions for the eBook are available on the class webpage. If you encounter any issues purchasing the eBook, technical assistance is available at McGraw-Hill’s support line 1-800-331-5094, press 2, press 2(Create), press 1.
- 2 chapters from the book *International Finance Theory into Practice* by Piet Sercu are available on Canvas through Study.Net Materials.
- Lecture notes, additional readings, assignments, homework questions and answers, and other material will be made available on the class webpage.

Course Requirements

- **Mid-term Exams:**
 - Thursday, October 15, during class time
 - Thursday, December 3, during class time

Each exam counts for 30% of the final grade. Exams are open note/open book and will be administered through Canvas.

- **Four Group Assignments** count together for 15% of the final grade; the lowest assignment score will be dropped. Each student is expected to join a project group consisting of 3-4 members. The project groups will jointly prepare and submit written assignments. The individuals constituting a group must remain the same over the semester. 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 and are submitted on Canvas. **LATE ASSIGNMENTS WILL NOT BE ACCEPTED.** The written assignments will be discussed in class and answers will not be distributed.

- **Four Individual Assignments** count for 15% of the final grade. Individual assignments contain questions and problems that students work out and submit individually.
- **Class participation**, 10% of the final grade. Particularly during the discussion of assignments, you are expected to actively participate through comments and questions.

Re-grading exams and graded assignments

Any request for re-grading must be submitted to me by email within two weeks from the date the exams or assignments have been returned.

“Homework” problem sets

Several problem sets will be made available during the semester and you will be given the answers to these. The purpose of these exercises is to help you 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

FX basics

1. Introduction: Derivative usage
2. Spot Foreign Exchange Markets
 Manipulating exchange rates, FX market structure, arbitrage
3. LIBOR, Forward Contracts and Interest Rate Parity
 Forward valuation, hedging with forwards, Non-deliverable Forwards

Derivatives

4. Currency Futures: Futures markets, hedging and speculating with futures
5. Currency Options
 Put-call parity, hedging with options, option pricing issues, Black-Scholes model, implied volatility, risk reversal
6. Currency and Interest Rate Swaps
 Examples and motivations for swaps, swap valuation, counterparty credit risk

Currency investments / Cryptocurrencies

7. Exchange Rate Theories and Evidence: Purchasing power parity
8. Trading and Risk Premia in Foreign Exchange Markets:
 Uncovered interest parity, carry trade, value, momentum
9. International Stocks and Bonds: Markets, diversification, hedging FX risk
10. Cryptocurrencies: Bitcoin, stablecoins, investing in cryptocurrencies

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

Calendar

Tue, Sep 1	
Thu, Sep 3	
Tue, Sept 8	
Thu, Sept 10	
Tue, Sept 15	Individual Assignment #1 discussed. Assignments are due by 3pm the day before
Thu, Sept 17	
Tue, Sept 22	Group Assignment #1 discussed
Thu, Sept 24	
Tue, Sept 29	
Thu, Oct 1	Individual Assignment #2 discussed
Tue, Oct 6	
Thu, Oct 8	
Tue, Oct 13	
Thu, Oct 15	Mid-term Exam 1 — during class time
Tue, Oct 20	
Thu, Oct 22	Group Assignment #2 discussed
Tue, Oct 27	
Thu, Oct 29	
Tue, Nov 3	
Thu, Nov 5	Individual Assignment #3 discussed
Tue, Nov 10	
Thu, Nov 12	
Tue, Nov 17	Group Assignment #3 discussed
Thu, Nov 19	
Tue, Nov 24	Individual Assignment #4 discussed
<i>Thu, Nov 26</i>	<i>No Class: Thanksgiving</i>
Tue, Dec 1	
Thu, Dec 3	Mid-term Exam 2 — during class time
Tue, Dec 8	Group Assignment #4 discussed
Thu, Dec 10	

The class webpage will include a more detailed and updated schedule.