Note to Students: Welcome to International Finance! This year you are part of a collaboration between Wharton and INSEAD campuses. The course will be primarily on-line, but occasionally I may be in either Philadelphia or Fontainebleau and appear in person. In that event, the course will be hybrid from other locations. I will give at least three days notice of in person classes. You are welcome to contact me directly with any follow-up questions out of class and we can set up Zoom one-on-one meetings.

Goals of the course
To provide an understanding of selected topics of current academic research in the areas of international finance and its intersection with international macroeconomics; to teach interested students the tools for conducting research in this field. Each topic will be developed beginning with early classic papers and then updated through the current status of the profession. The typical target audience comprises students in their second year or later.

Readings
Most papers assigned for this course are available on the web. For published papers, http://www.library.upenn.edu link to E-journals and then link to Economics or Finance, for most working papers www.google.com. However, most of the papers will be posted on Canvas, especially older and more difficult-to-find papers.

Requirements
(1) Final Exam comprising 60% of grade; (2) Critical analysis of a research paper given by oral presentation comprising 40% of grade. For students falling between a letter grade, a third category may be relevant: (3) Course participation.

The Final exam is tentatively scheduled for April 25. The final exam will be on-line.

In order to further understand concepts, two or three homework sets will be assigned during the semester. I will check the assignments but they will not count toward your final grade.
Note to INSEAD students: I recognize that your term is shorter and will make amends for these requirements at a later date.

Student presentations
Students will be required to choose a paper that they wish to critique from a list that will be made available in September and posted on Canvas. Papers are chosen on a first-come first-serve basis. I will provide detailed information about how this presentation should be prepared by the end of October.

Auditors
Any students sitting in on the course who are not registered for a grade will be expected to read the relevant papers and participate in the discussions.

Lectures
Papers marked with a * will be covered in class by me. Professor Roussanov will be a guest lecturer for one class. The readings for that class are marked with a **. The other papers provide background reading that I may touch on during lectures.

TOPICS AND READINGS

1. Basic International Model


2. General Equilibrium Models of International Business Cycles

2.1. Basic model with complete markets


**2.2. Incomplete markets, default and moral hazard**


**3. Exchange Rates**

**3.1 Exchange Rate Basics**


### 3.2 The Foreign Exchange Risk and Returns

a) **Foreign Premium Anamoly**


b) The Carry Trade


c) Foreign Exchange Risk Models


3.3 Exchange Rates and Risk-sharing


4. International Diversification and Segmentation

4.1. Home bias


4.2. International Portfolio Choice


4.3. Welfare Gains from International Diversification


5. Capital flows

5.1. Capital Flow Basics


5.2. Segmented Asset Markets Models
5.3 Informational Frictions


*Van Nieuwerburgh, Stijn; Veldkamp, Laura; 2009, Information Immobility and the Home Bias Puzzle, Journal of Finance, 64:3, 1187-1215.

5.4 Differences of Opinion Models


5.5 Capital Flows at the Investor Level


6. Sovereign Risk

6.1 Sovereign Default


Aguiar, Mark; Chatterjee, Sathajit; Cole, Harold; Stangebye, Zachary, 2020, Self-Fulfilling Debt Crises, Revisited Federal Reserve Bank of Philadelphia Working paper #20-03.

6.2 Emerging Market Debt


7. International Disaster Risk


Appendix: Additional Topics (Reference only)

A1 “Peso Problems,” Rare Events, and Learning

A2. International managerial decisions: Exports, Corporate Governance, and Financing
A2.1 Exports, profitability, and business cycles


**A2.2 Firm financing**

a) **Financing/dual listings/ADR programs**


b) **Investor protection/governance**


c) **International Cost of Capital Basics**


d) **International Cost of Capital: Industry or Country Factors?**
