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. Older and more difficult-to-find papers will be posted on Canvas.

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 December 7.

In order to further understand concepts, one or two homework sets will be assigned during the semester. I will check the assignments but they will not count toward your final grade.

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 Rate Basics

3.1 Exchange Rate Basics


3.2 The Foreign Exchange Risk and Returns

a) Foreign Premium Anomaly


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


5.1 Informational Frictions


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

5.2. Segmented Asset Markets Models


5.3. Differences of Opinion Models


5.4. 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?**
