

**Syllabus**  
**International Finance**  
FALL 2018

**School of Finance**

**Level:** Master, 2 year

**Course Type:** Elective

**Language of instruction:** English

**Period:** Module 1-2

**Instructor:** Dr. Madina Karamysheva, E-mail: mkaramysheva@hse.ru, office number 4319

**Course Description:**

Integration and globalization of the modern world require a deep understanding of international finance. This course focuses on explanation of up-to-date theories of international finance and on its practical real world applications. Effective corporate decision making requires a deep understanding of the international financial markets, in particular this course will cover foreign exchange markets and world capital markets. Moreover, hedging strategies and risk management are necessary for effective financial management.

**Course Organization:**

The course is based on lectures with research paper and case discussions. The required reading assignment for each session consists of lecture notes, relevant chapters of the book and/or journal articles. Students are expected to have carefully read required reading and be prepared to summarize and discuss key insights. The content of the course may vary depending on the number of students subscribed

**Course Material:**

- Required: Lecture notes in pdf format
- Required Book: Bekaert, Geert, and Robert J. Hodrick. International financial management. Upper Saddle River, New Jersey, NJ: Pearson Prentice Hall, 2 ed., 2011. (further in the schedule BH)
- Optional Books:
  - Madura, Jeff. International financial management. Cengage Learning, 12 ed., 2016.
  - Sercu, Piet. International finance: Theory into practice. Princeton University Press, 2009.
  - Krugman, Paul R., Maurice Obstfeld, and Marc J. Melitzrugman, International Economics: Theory and Policy, Prentice Hall, 9 ed, 2011
  - Mark, Nelson C. International Macroeconomics and Finance: Theory and empirical methods. Blackwell, 2001.

- Resnick, Eun, and Cheol S. Eun. *International Financial Management*, 2001
- Shapiro, Alan C. *Multinational financial management*. John Wiley & Sons, 2008
- Obstfeld, Maurice, Kenneth S. Rogoff, and Simon Wren-lewis. *Foundations of international macroeconomics*. Vol. 30. Cambridge, MA: MIT press, 1996.
- Journal articles TBD (required reading marked by \*)
  - 1ch
  - Bekaert, Geert, Campbell R. Harvey, and Christian Lundblad, 2005, “Does Financial Liberalization Spur Growth?” *Journal of Financial Economics* 77, pp.3–55.
  - Bloom, Nicholas, 2009, “The Impact of Uncertainty Shocks,” *Econometrica* 77, pp. 623–685.
  - Borensztein, Eduardo, Jose De Gregorio, and Jong-Wha Lee,1998, “How Does Foreign Direct Investment Affect Economic Growth?” *Journal of International Economics* 45, pp. 115–135.
  - Desai, Mihir, C. Fritz Foley, and James R. Hines, Jr., 2006, “Capital Controls, Liberalizations and Foreign Direct Investment,” *Review of Financial Studies* 19, pp. 1399–1431.
  - Frankel, Jeffrey A., and David Romer, 1999, “Does Trade Cause Growth?” *American Economic Review* 89, pp. 379–399.
  - Kose, M. Ayhan, Eswar S. Prasad, and Marco E. Terrones, 2009, “Does Financial Globalization Promote International Risk Sharing?” *Journal of Development Economics* 89, pp. 258–270.
  - \* Caballero R, E. Farhi, P-O Gourinchas, 2008. "Financial Crash, Commodity Prices, and Global Imbalances," *Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution*, vol. 39(2 (Fall)), pages 1-68
  - \* Lucas, R. E. “Why Doesn’t Capital Flow from Rich to Poor Countries?” *American Economic Review* (May 1990): 92-6.
  - 4ch
  - Baxter, Marianne, and Mario J. Crucini, 1993, “Explaining Saving–Investment Correlations,” *American Economic Review* 83, pp. 416–436.
  - Lane, Philip R., and Gian Maria Milesi-Ferretti, 2007, “A Global Perspective on External Positions,” in Richard Clarida, ed., *G7 Current Account Imbalances: Sustainability and Adjustment* , Chicago: University of Chicago Press.
  - Mendoza, Enrique G., 1991, “Real Business Cycles in a Small Open Economy,” *American Economic Review* 81, pp. 797–818.
  - \*Backus, D.K., P. Kehoe and F. Kydland,”*International Real Business Cycles*”, *Journal of Political Economy*, August 1992.
  - \*Backus, D. ,P. Kehoe and F. Kydland, ”*Dynamics of the trade balance and the terms of trade: the J curve ?*” *American Economic Review*, March 1994
  - 2ch

- \*Bjornes, Geir H., and Dagfinn Rime, 2005, “Dealer Behavior and Trading Systems in Foreign Exchange Markets,” *Journal of Financial Economics* 75, pp. 571–605.
- Chaboud, Alain, Benjamin Chiquoine, Erik Hjalmarsson, and Clara Vega, 2009, “Rise of the Machines: Algorithmic Trading in the Foreign Exchange Market,” Board of Governors of the Federal Reserve System, International Finance Discussion Paper 980.
- Ding, Liang, 2009, “Bid-Ask Spread and Order Size in the Foreign Exchange Market: An Empirical Investigation,” *International Journal of Finance and Economics* 14, pp. 98–105.
- \*Melvin, Michael, and Mark P. Taylor, 2009, “The Crisis in the Foreign Exchange Market,” *Journal of International Money and Finance* 28, pp. 1317–1330.
- Mende, Alexander, and Lukas Menkhoff, 2006, “Profits and Speculation in Intra-Day Foreign Exchange Trading,” *Journal of Financial Markets* 9, pp. 223–245.
- 6-8ch
- \*Engel C. "Accounting for US Real Exchange Rate Changes," *Journal of Political Economy* 107(3), June 1999, pages 507-38;
- \*Acemoglu D. and J. Ventura, "The World Income Distribution", *Quarterly Journal of Economics*, May 2002.
- \*Jean Imbs & Haroon Mumtaz & Morten Ravn & Helene Rey, 2005. "PPP Strikes Back: Aggregation and the Real Exchange Rate," *The Quarterly Journal of Economics*, MIT Press, vol. 120(1), pages 1-43, January.
- Shleifer, Andrei, and Robert W. Vishny, 1997, “The Limits of Arbitrage,” *Journal of Finance* 52, pp. 35–55.
- Baba, Naohiko, and Frank Packer, 2009, “From Turmoil to Crisis: Dislocations in the FX Swap Market Before and After the Failure of Lehman Brothers,” *Journal of International Money and Finance* 28, pp. 1350–1374.
- Baba, Naohiko, and Frank Packer, 2009, “Interpreting Deviations from Covered Interest Parity During the Financial Market Turmoil of 2007-08,” *Journal of Banking and Finance* 33, pp. 1953–1962.
- Parsley, David C., and Shang-Jin Wei, 2007, “A Prism into the PPP Puzzles: The Micro-Foundations of Big Mac Real Exchange Rates,” *The Economic Journal* 117, pp. 1336–1356.
- 5ch
- Beine, Michel, Jerome Lahaye, Sebastien Laurent, Christopher J. Neely, and Franz C. Palm, 2007, “Central Bank Intervention and Exchange Rate Volatility, Its Continuous and Jump Components,” *International Journal of Finance and Economics* 12, pp. 201–224.
- \*Bekaert, Geert, and Stephen Gray, 1998, “Target Zones and Exchange Rates: An Empirical Investigation,”

- Edwards, Sebastian, and I. Igal Magendzo, 2003, “Dollarization and Economic Performance: What Do We Really Know?” *International Journal of Finance and Economics* 8, pp. 351–363.
- Friedman, Milton, 1953, “The Case for Flexible Exchange Rates,” *Essays in Positive Economics*, Chicago: University of Chicago Press, pp. 157–203.
- \*Galati, Gabriele, and Philip Wooldridge, 2009, “The Euro as a Reserve Currency: A Challenge to the Pre-Eminence of the Dollar,” *International Journal of Finance & Economics* 14, pp. 1–23.
- Obstfeld, Maurice, and Jay C. Shambaugh, 2005, “The Trilemma in History: Tradeoffs Among Exchange Rates, Monetary Policies, and Capital Mobility,” *Review of Economics and Statistics* 87, pp. 423–438.
- Pasquariello, Paolo, 2010, “Central Bank Intervention and the Intraday Process of Price Information in the Currency Markets,” *Journal of International Money and Finance* 29, pp. 1045–1061.
- Wang, Yongzhong, 2010, “Effectiveness of Capital Controls and Sterilizations in China,” *China and the World Economy* 18, pp. 106–124.
- 11,12ch
- \*Ang, Andrew, Geert Bekaert, and Min Wei, 2008, “The Term Structure of Real Rates and Expected Inflation,” *Journal of Finance* 63, pp. 797–849.
- Bernanke, Ben S., 2005, “Global Savings Glut and the US Current Account Deficit,” Homer Jones Lecture, St. Louis, MO, April 14.
- Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas, 2008, “An Equilibrium Model of ‘Global Imbalances’ and Low Interest Rates,” *American Economic Review* 98, pp. 358–393.
- Faulkender, Michael, 2005, “Hedging or Market Timing? Selecting the Interest Rate Exposure of Corporate Debt,” *Journal of Finance* 60, pp. 931–961.
- Giannetti, Mariassunta, and Luc Laeven, 2010, “The Flight Home Effect: Evidence from the Syndicated Loan Market During Financial Crises,” working paper.
- \*Bekaert, Geert, Campbell R. Harvey, and Christian Lundblad, 2007, “Liquidity and Expected Returns: Lessons from Emerging Markets,” *Review of Financial Studies* 20, pp. 1783–1831.
- Foerster, Stephen, and G. Andrew Karolyi, 1999, “The Effects of Market Segmentation and Investor Recognition on Asset Prices: Evidence from Foreign Stocks Listing in the U.S.,” *Journal of Finance* 54, pp. 981–1013.
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- 13ch
- \*Ang, Andrew, and Joseph Chen, 2007, “CAPM over the Long Run: 1926–2001,” *Journal of Empirical Finance* 4, pp. 1–40.
- Ang, Andrew, Robert Hodrick, Yuhang Xing, and Xiaoyan Zhang, 2009, “High Idiosyncratic Volatility and Low Returns: International and Further U.S. Evidence,” *Journal of Financial Economics* 91, pp. 1–24
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- \*Fama, Eugene F., and Kenneth R. French, 1998, “Value Versus Growth: The International Evidence,” *Journal of Finance* 53, pp. 1975–1999.
- \*Fama, Eugene F., and Kenneth R. French, 2002, “The Equity Premium,” *Journal of Finance* 57, pp. 637–659.
- \*Harvey, Campbell R., 1991, “The World Price of Covariance Risk,” *Journal of Finance* 46, pp. 111–157.
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- 15,16ch
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- 9,10ch
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- \*Engel, Charles, and Kenneth D. West, 2005, “Exchange Rates and Fundamentals,” *Journal of Political Economy* 113, pp. 485–517.
- \*Faust, Jon, John H. Rogers, Shing-Yi B. Wang, and Jonathan H. Wright, 2007, “The High-Frequency Response of Exchange Rates and Interest Rates to Macroeconomic Announcements,” *Journal of Monetary Economics* 54, pp. 1051–1068.
- Glick, Reuven, and Michael Hutchison, 2005, “Capital Controls and Exchange Rate Instability in Developing Countries,” *Journal of International Money and Finance* 24, pp. 387–412.
- Jorda, Oscar, and Alan M. Taylor, 2009, “The Carry Trade and Fundamentals: Nothing to Fear but FEER Itself,” *NBER Working Paper No. 15518*.
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- 20,21ch.
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- 14ch.
- Andrade, Sandro C., 2009, “A Model of Asset Pricing Under Country Risk,” *Journal of International Money and Finance* 28, pp. 671–695.
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- \*Hilscher, Jens, and Yves Nosbusch, 2010, “Determinants of Sovereign Risk: Macroeconomic Fundamentals and the Pricing of Sovereign Debt,” *Review of Finance* 14, pp. 235–262.
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- 17,18ch.
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- Systemic Risk
- Acharya, V. V., Pedersen, L. H., Philippon, T. & Richardson, M. (2017), ‘Measuring systemic risk’, *Review of Financial Studies* 30(1), 2-47.
- Adrian, T. & Brunnermeier, M. K. (2016), ‘Covar’, *American Economic Review* 106(7), 1705 - 41.
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## Grading:

There will be assignments, a group project and final exam. They will count toward the grade as follows.

Assignments	35%
Group Project/Presentation	15%
Final Exam	50%.

## Course Content:

1. Multinational Financial Management and Globalized World (growth of international trade; globalization of financial markets; goal and organizational structure of the MNC; important international players; globalization and MNC: benefactor or menace?)
2. International Financial Markets
  - (a) Balance of Payments (Concepts and terminology; surpluses and deficits in the BOP Accounts; dynamics of the BOP)
  - (b) Foreign Exchange Market (Market players; Organization of FOREX market; Spot rates, Forward rates; Interest rate parity, PPP and real exchange rates; Foreign exchange intervention, exchange rate systems)
3. International Capital Markets
  - (a) International debt financing (Global sources of funds, characteristics of debt instruments, world’s bond market, international bank loans, cost of debt)
  - (b) International equity financing (International stock markets, cross-listing and depositary receipts, strategic alliances)



- (c) International capital market equilibrium (Risk and return of international investments, international diversification, optimal portfolio allocation, international CAPM, integrated versus segmented markets)
4. Multinational Capital Structure and Capital Budgeting (NPV, financial side effects, real options, parent versus subsidiary cash flows)
5. Risk Management and Hedging
- (a) Forecasting exchange rates (Parity conditions and exchange rate forecasts, common forecasting techniques, fundamental forecasting, technical analysis, evaluating forecasts), Measuring and managing real exchange risk
  - (b) Foreign currency futures and options, foreign currency swaps
  - (c) Forward markets and transaction exchange risk (hedging transaction exposure, forward foreign exchange market)
  - (d) Managing economic and translation exposure (assessing economic exposure and restructuring to reduce economic exposure; hedging with forward contracts)
  - (e) Country risk analysis (country and political risk analysis, measuring country risk, assessment of political risk in financial decisions)
  - (f) Risk Management and the Foreign Currency Hedging Decision (arguments against and for hedging, hedging in real world, hedging trends)
  - (g) Financing International Trade (fundamental problem with international trade, documents, methods of payments, financing exports, countertrade)
6. Systemic Risk

Table 1: Schedule

Week	Session	Topic	Material
week 1	Lecture 1	Multinational Financial Management and Globalized World	BH, ch.1
	Lecture 2	Balance of Payments	BH, ch.4
week 2	Lecture 3	Foreign Exchange Market (Market players; Organisation of FOREX market; Spot rates, Forward rates )	BH, ch.2
	Lecture 4	article TBD	article TBD
week 3	Lecture 5	Foreign Exchange Market (Interest rate parity)	BH, ch.6
	Lecture 6	article TBD	article TBD
week 4	Lecture 7	Foreign Exchange Market (PPP and real exchange rates)	BH, ch.8
	Lecture 8	article TBD	article TBD
week 5	Lecture 9	Foreign Exchange Market (Foreign exchange intervention, exchange rate systems)	BH, ch.5
	Lecture 10	article TBD	article TBD
week 6	Lecture 11	International Capital Markets (International debt financing)	BH, ch.11
	Lecture 12	article TBD	article TBD
week 7	Lecture 13	International Capital Markets (International equity financing)	BH, ch.12
	Lecture 14	article TBD	article TBD
week 8	Lecture 15	International Capital Markets (International capital market equilibrium)	BH, ch.13
	Lecture 16	article TBD	article TBD
week 9	Lecture 17	Multinational Capital Structure and Capital Budgeting	BH, ch.15, ch.16
	Lecture 18	article TBD	article TBD
week 10	Lecture 19	Risk Management and Hedging (Forecasting exchange rates)	BH, ch. 9
	Lecture 20	article TBD	article TBD
week 11	Lecture 21	Risk Management and Hedging (Measuring and managing real exchange risk)	BH, ch. 10
	Lecture 22	article TBD	article TBD
week 12	Lecture 23	Risk Management and Hedging (Foreign currency futures and options, swaps)	BH, ch.20, 21
	Lecture 24	article TBD	article TBD
week 13	Lecture 25	Risk Management and Hedging (Forward markets and transaction exchange risk)	BH, ch.3
	Lecture 26	article TBD	article TBD
week 14	Lecture 27	Risk Management and Hedging (Country risk analysis)	BH, ch.14
	Lecture 28	article TBD	article TBD
week 15	Lecture 29	Risk Management and the Foreign Currency Hedging Decision	BH, ch.17
	Lecture 30	Financing International Trade	BH, ch.18
week 16	Lecture 31	Systemic Risk	article TBD
	Lecture 32	article TBD	article TBD