

International Finance

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Abstract

This elective course is designed to give an overview of the key issues in international finance. We first consider macroeconomic accounting and how to interpret stylised facts. We then study risk-sharing in international finance within the Arrow-Debreu paradigm. Next we consider the empirical evidence for the standard open economy results and investor behaviour. Then we move to considering Sovereign debt and financial frictions and how they extend our understanding of crises. We then study the real example of Argentina and study models which specifically describe such situations of sovereign and exchange rate crises. Finally we conclude by considering the models of currency crisis.

Prerequisites: Microeconomics, Macroeconomics, Financial Economics

Learning Objectives and Outcomes

The course provides students with an overview of the key issues in International Finance. Upon successful completion of the course students will develop a coherent analytical framework upon which to think about open economy issues in Industry, particularly in Investment Banking. Students wishing to continue on to a PhD will obtain an insight into the issues and models which are pertinent in academia.

The course provides a solid and technical foundation in economic and financial theory and then seeks to motivate and challenge these results with empirical evidence. The level of the course is aimed at an MSc level though the material is commonly found at the PhD level.

The student should be able to apply professional knowledge and skills acquired while studying the course in practical areas, including academic research, work in financial institutions, industry, state governance.

Required reading

Obstfeld and Rogoff, 1996, Foundations of International Macroeconomics, MIT Press.

Optional reading

- M. Uribe: <http://www.columbia.edu/~mu2166/GIM/GIM.html> & <http://www.columbia.edu/~mu2166/UIM/notes.pdf>

Class notes will also be distributed

Grading System and Knowledge Assessment

There will be an assignment worth 20% and a final exam worth 80%.

Sample materials for knowledge assessment are available in ICEF Information system at <https://icef-info.hse.ru>.

Methods of Instruction

Students may be used to a strict Didactic teaching approach in the past. This course takes a mix of the Socratic and Didactic approach to teaching, with lectures emphasising the Socratic. For those unfamiliar with this, please refer to: <http://www.collegeenglishbooks.com/two-models-of-teaching-learning.html>.

The following methods and forms of study are used in this course: lectures, a home assignment, teachers' consultations (2 hours per week) and self-study. Lectures will be given primarily through slides, with discussions, academic articles and videos to compliment and reinforce concepts. All content in lectures are assessable.

The classes are used to illustrate the theory with references to policy issues, empirical studies and quantitative tasks. The home assignment has two goals: they are used to monitor the students' progress in the course and prepare students for the final examination.

Special Equipment and Software Support

Laptop, projector, Internet connection

MS Word, MS Excel

Course plan

1 International Accounting, Risk Sharing and Business Cycles

Here we will look at the basics of national accounting for open economies and examine stylized facts about the world economy. We will construct a formal model that reflects the accounting relationships. We will also study the Russian and Brazillian crisis. These lectures will provide a motivation for the theoretical frameworks that will follow.

2 International Exchange Economies, Risk Sharing and Incomplete Markets

We will first extend the basic asset pricing result of Arrow-Debreu to an international context and examine the predictions for risk sharing. We will extend this analysis first to International CAPM and then see how market incompleteness and default affect the results.

3 International investments

Here we will study the empirical evidence for the key results of open economy finance/economy theory from pricing to portfolio/investor behaviour.

4 Exchange Rates

5 National Debt and Sovereign Risk

We consider models of sovereign default and currency crisis, motivated by the episode in Argentina and Greece. We then consider models of capital flows and sovereign lending and default.

6 Financial Stability, Macro/Micro-prudential policy and international spillovers

We will cover banking regulations, financial stability and international spillover of risk through the banking system.

7 Russia as an Open Economy and Review

The post-soviet Russian experience will be examined through the lens of the course material covered. We will go through the material in the course and discuss how various aspects considered tie in together.

