

International Economics

Academic year 2020-2021

International Finance A

EI061 - Printemps - 6 ECTS

Monday 10h15 - 12h00

Course Description

This course will provide an in-depth analysis of international financial markets. The course will start with an overview of international capital flows. It will discuss the drivers of exchange rate determination and international asset pricing. It will examine the determinants of international sovereign borrowing, international portfolio choices, and financial crises and international financial contagion. The course will match theory to empirical results and discuss the implications of these theoretical and empirical results for economic policy.

> PROFESSOR

[Yi Huang](#)

<https://yihuang05.wixsite.com/macroeconomics>

[Office hours](#)

> ASSISTANT

Hossein Tohidimehr

[Office hours](#)

Syllabus

1. Course Objectives

This graduate level course familiarizes students with key concepts in international finance. Particular attention is given to the recent financial crisis. The course draws on a wide range of scientific articles of varying difficulty. Students with no background in economics are strongly recommended to master an introductory textbook in international finance. A good knowledge of statistical and econometric inference is also essential.

2. Course Organization

The course is a blend of lectures and research paper discussions. The required reading assignment for each session consists of one (or at most two) journal article. Students are expected to have carefully read these articles (marked by RR) and be prepared to summarize and discuss their key insights. Other optional reading includes suggested reading (SR).

The grading will be based on class participation (10%), assignments(10%), problem sets (30%), and the final exam (50%).

All assignment needs to be sent to Prof. Huang before the respective class starts. Late submissions are not accepted. The word file has to name (on the top) participants who have worked on the solution. You should be able to present and defend your solution in class. The final exam will consist of short questions covering the required reading of the course.

3. Course Material

There is one required course textbook.

International Finance: Theory into Practice, Piet Sercu Princeton Press, 2009

<http://press.princeton.edu/titles/8907.html#inspect>

4. Course Administration

Class participants can contact me or the course assistant any time by e-mail and/or make direct appointments.

Course Schedule

Sessions 1-3 Globalization and its Limits

a) Globalization and Capital Markets

- **Assignment I: Watch the following Webcast:**

<http://www.aeaweb.org/webcasts/2014/FG/NewStandardPlayer.html?plugin=HTML5&mimetype=video%2Fmp4>

**Summarize the main points of each of the following speaker (1 page each):
Andrew G. Haldane; Hans-Werner Sinn; Simon Johnson; Maurice Obstfeld**

- SR: M. Kose, E. Prasad, K. Rogoff, S. Wei (2006), "Financial Globalization: A Reappraisal", NBER Working Paper No. 12484.
Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1621182
- SR: Obstfeld, M., 1998, "The global capital market: Benefactor or menace?", *Journal of Economic Perspectives*.

b) Globalization and Governance

- SR: [Morck, R., D. Wolfenzon and B. Yueng, 2008, "Corporate Governance, Economic Entrenchment, and Growth", *Journal of Economic Literature* 43, 655-720.](#)
- SR: [Fernandes, N, 2008, "Sovereign Wealth Funds: Investment Choices and Implications around the World", IMD working paper.](#)

c) Globalization and Equity Market Segmentation

- SR: Hau, H. 2001, Location Matters: An Examination of Trading Profits, *Journal of Finance*, Vol. 56 (2001), No. 5, 1959-1983

Sessions 4&5: International Arbitrage Relationships

a) Purchasing Power Parity

- SR: Menkhoff, L., L. Sarno, M. Schmelling, and A. Schrimpf, 2011, "Carry trades and Global Foreign Exchange Volatility," *Journal of Finance*, forthcoming.
- SR: Jylhä, P., and M. Suominen, 2011, "Speculative Capital and Currency Carry Trades", *Journal of Financial Economics* 99, 60-75.
- SR: Gourinchas, P.-O., & Rey, H., 2007, "International financial adjustment," *Journal of Political Economy*, 115(4), 665–703.

b) Interest Rate Parity and Limited Arbitrage

- SR: Hau and Rey, 2006, Exchange Rate, Equity Prices and Capital Flows," *Review of Financial Studies*, Vol. 19 (2006), 273-317.
- SR: Hau, H. and S. Lai, 2014, "Asset Allocation and Monetary Policy: Evidence from the Eurozone." http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2309227
- SR: Hau, H., 2012. "The Exchange Rate Effect of Multi-Currency Risk Arbitrage," SFI Research Paper No. 12-07, Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2006483

Sessions 6: International Diversification and Portfolio Management

a) Case Study on Portfolio Management

b) Black-Litterman Model

- SR: He and Litterman, 1999, "The Intuition behind the Black Litterman Model Portfolios," Goldman Sachs Investment Management.

Sessions 7: Spot Market for Foreign Currency

- RR: International Finance: Theory into Practice, chapter 3

Sessions 8: Understanding Forward Exchange Rate for Currency

- RR: International Finance: Theory into Practice, chapter 4

Sessions 9: Using Forwards for International Financial Management

- RR: International Finance: Theory into Practice, chapter 5

Sessions 10: Why--or When--Should we Hedge Currency Exposure?

- RR: International Finance: Theory into Practice, chapter 12

Sessions 11: Measuring Exposure to Exchange Rates

- RR: International Finance: Theory into Practice, chapter 13

Sessions 12: International Fixed-Income Markets

- RR: International Finance: Theory into Practice, chapter 16

Sessions 13: Segmentation and Integration in International Stock Markets

- RR: International Finance: Theory into Practice, chapter 17