BUSINESS ECONOMICS 527A, 427A
INTERNATIONAL FINANCE
Autumn 2015

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Office Hours in 440 Paccar Hall:
Wednesday, 3-4:30 pm
and by appointment

Course Description
International finance is at the intersection of economics and finance. This course covers macroeconomic topics, such as the balance of payments and models of the exchange rate; institutional topics, such as the operation of foreign exchange markets and the growth of offshore bond markets; and finance topics, such as hedging with derivatives and international portfolio diversification. Along the way, we also examine a number of issues in the news, such as the U.S. current account deficit, currency crises, sovereign wealth funds, and the carry trade.

Textbook and readings
- The following textbook is available at the University Bookstore:
- The other required readings are posted on Canvas.

Course Requirements

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Percentage of Final Grade (approx.)</th>
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<tr>
<td>Midterm exam (in class, November 5)</td>
<td>35%</td>
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<tr>
<td>Final exam (Thurs. Dec.17, 4:30-6:20 pm)</td>
<td>35%</td>
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<td>Weekly problem sets</td>
<td>15%</td>
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<tr>
<td>Group presentation (due dates vary)</td>
<td>15%</td>
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- Attendance and participation may also be taken into account in your final grade.
- The group project consists of a group oral report on an international finance issue plus an individual essay on the topic. See attached instructions.
- The final exam focuses on material after the midterm exam. However, you will still have to know basic concepts from before the midterm.

Course information on-line
This class has a Canvas website. I will use this site to post copies of lecture slides, readings, announcements, assignments, and assignment answers.
The textbook has a website: www.mhhe.com/er7e. This site includes online quizzes and links to other resources. Use of this website is optional, unless a problem is explicitly assigned.

Policies on problem sets
Problem sets must be completed individually. You may talk about questions with other students, but you must write up your answers on your own.
Your answers to the problem sets must be posted to Canvas no later than the beginning of class on the due date. No credit will be given for late assignments.
A subset of problems (usually 2-3) will be graded from each problem set.
Answers to all the problem sets will be posted on Canvas.
At the end of the quarter, the lowest problem set grade will be dropped.
COURSE OUTLINE AND READINGS

The readings below are required. All "Chapter" readings are from the Eun & Resnick textbook. All other readings will be posted on Canvas. Additional readings may be assigned.

<table>
<thead>
<tr>
<th>DATE</th>
<th>TOPIC AND READING</th>
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<tbody>
<tr>
<td>10/1</td>
<td>Introduction to international finance</td>
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<tr>
<td></td>
<td>Chapter 1 (skip appendix)</td>
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<tr>
<td>10/6</td>
<td>Balance of payments accounting</td>
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<td></td>
<td>Chapter 3 (appendix required)</td>
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<tr>
<td>10/8</td>
<td>Balance of payments and the exchange rate</td>
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<td>Chapter 2, pp. 27-40</td>
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<tr>
<td>10/13</td>
<td>Foreign exchange supply and demand</td>
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<td></td>
<td>Fixed and floating exchange rate systems – history and policy choices</td>
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<td>Chapter 2, pp. 48-58</td>
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<tr>
<td>10/15</td>
<td>Spot currency markets and arbitrage; forward contracts</td>
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<tr>
<td></td>
<td>Chapter 5</td>
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<tr>
<td></td>
<td>Herbert Stein, “Foreign Travels, Foreign-Exchange Travails,” Wall Street Journal,</td>
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<td></td>
<td>August 27, 1990.</td>
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<tr>
<td>10/20</td>
<td>Covered interest parity</td>
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<td>Chapter 6, pp. 139-148</td>
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<tr>
<td>10/22</td>
<td>No class</td>
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10/27 **Uncovered interest parity; carry trade**


*Discussion question:*
*What role did the carry trade play in the Icelandic bubble?*

10/29 **Eurocurrency and Eurobond markets**

*Chapter 11, pp. 272-277*

*Chapter 12, pp. 304-307 and skim pp. 313-318*

11/3 **Purchasing power parity**

*Chapter 6, pp.149-156*

11/5 **MIDTERM EXAM**

11/10 **Exchange rate models and forecasting**

*Chapter 6, pp.158-165 and Appendix 6A*

11/12 **Definition and measurement of currency exposure**

*Chapter 9, pp.225-235*


*Discussion question:*
*What explains the different amounts of exchange rate pass-through for truffles, French and Italian wine, and Spanish olive oil?*

11/17 **Hedging with forward contracts**

*Chapter 8, pp.198-210*

11/19 **Hedging with futures and options contracts**

*Chapter 7, pp.173-185*
11/24  Operational hedging

Chapter 8, pp. 210-214

Chapter 9, pp. 236-241

11/26  Holiday – no class

12/1  Operational hedging (cont’d)


Discussion questions:
Was Chairman Ruhnau speculating or hedging? Should he be fired?
Should options contracts have been rejected?

12/3  International portfolio investment

Chapter 13 (okay to skim this chapter)

Chapter 15 (okay to skim pp. 381-388); include Appendix 15B (skip 15A)

12/8  The Euro – history and challenges

Chapter 2, pp. 43-48 (include box on pp. 48-49)

12/10 European debt crisis


Discussion questions:
Can Greece’s debt crisis be blamed on the euro?
What would be the effect of a Greek exit from the euro?

12/17  FINAL EXAM, 4:30-6:20 pm