

Econ 690

International Financial Economics

Spring 2019

Instructor: Charles Engel

This course examines:

- Economics of international financial markets
- How international considerations affect financial economic models

We will look at:

- Global financial crisis
- Foreign exchange markets and risk
- International interest parity conditions and foreign exchange rate determination
- International capital markets
- A brief look at foreign currency derivatives

The aim of the course is to get an understanding of the economic forces that drive international financial markets.

This is not a course in asset pricing, or mathematical finance, or the institutional details of international asset markets, though it will touch on all of these.

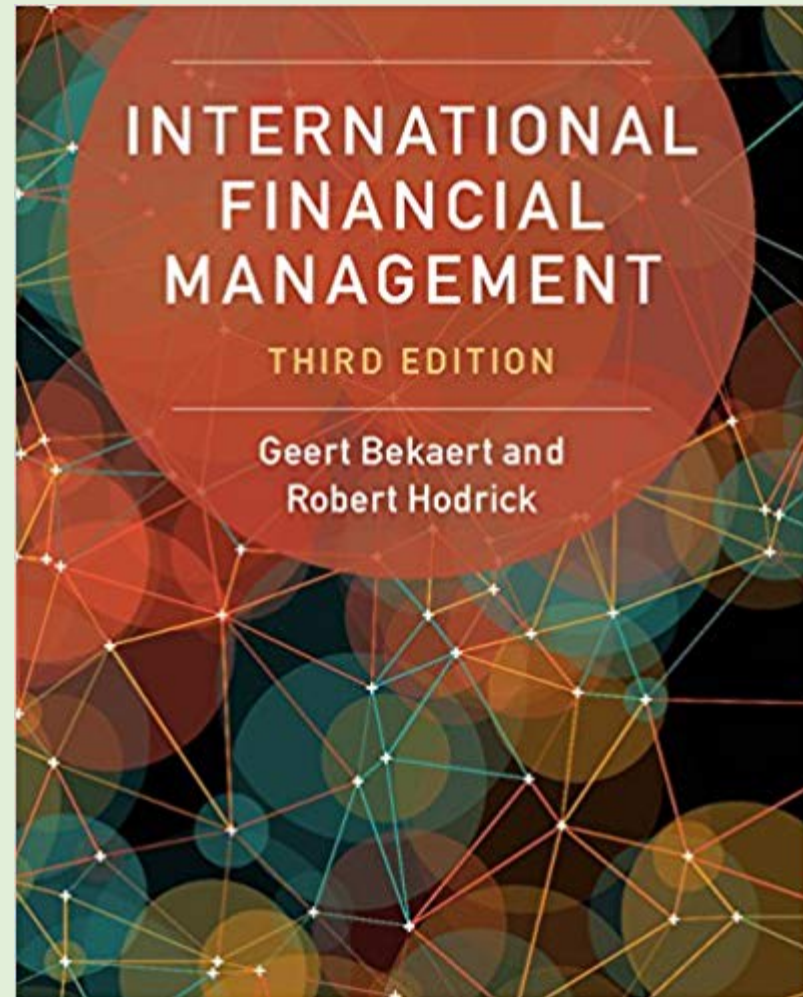
We are more interested in understanding

- what economic forces determine foreign exchange rates
- what determines rates of returns in one country relative to another
- what determines capital flows across borders

Required Textbook:

Bekaert, Geert, and Robert Hodrick. 2018. International Financial Management, Third Edition. Cambridge University Press.

Note: New 3<sup>rd</sup> edition is much cheaper than used 2<sup>nd</sup> edition.



## Course Requirements:

26% - Test 1 on Monday, February 25  
(This will be an evening test! 5:30 pm – 7:00 pm)

26% - Test 2 on Monday, April 1  
(This will be an evening test! 5:30 pm – 7:00 pm)

26% - Test 3, on Wednesday, May 8, 10:05 AM – 12:05 PM

17% - weekly homework

5% - attendance and participation

You may work together on homework, but each person must write their own version of the answers to turn in.

## Office hours

MW 10:00 – 11:00, TTh 2:00 – 3:00, and by appointment

Email: [cengel@ssc.wisc.edu](mailto:cengel@ssc.wisc.edu)

Text: 608-335-6986



## Course outline

**C** means read carefully, but not necessarily in detail

**D** means read in detail

### 1. *The global financial crisis*

Gorton, Gary, and Andrew Metrick. 2012. "Getting up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide." Journal of Economic Literature 20, 128-150. **(C)**



## 2. *Global financial markets*

Bekaert & Hodrick: Chapter 1, sections 1.1, 1.2, 1.4, 1.6 **(D)**

sections 1.3, 1.5 **(C)**

Fernández, Andrés; Michael W. Klein; Alessandro Rebucci; Martin Schindler; and, Martín Uribe. 2015. “Capital Control Measures: A New Dataset.” National Bureau of Economic Research, working paper no. 20970. **(C)**





### 3. *The foreign exchange market*

Bekaert & Hodrick: Chapter 2, sections  
2.1, 2.2, 2.5 **(D)**  
sections 2.3, 2.4 **(C)**

Bank for International Settlements.  
“Triennial Survey of Foreign  
Exchange and OTC Derivatives  
Trading.” **(D)**



#### 4. *Forward markets and foreign exchange risk*

Bekaert & Hodrick: Chapter 3, sections 3.1, 3.2, 3.4, 3.5, 3.6, and  
Appendix **(D)**  
section 3.3 **(C)**

#### 5. *Balance of payments accounts*

Bekaert & Hodrick: Chapter 4, entire chapter including Appendix **(D)**

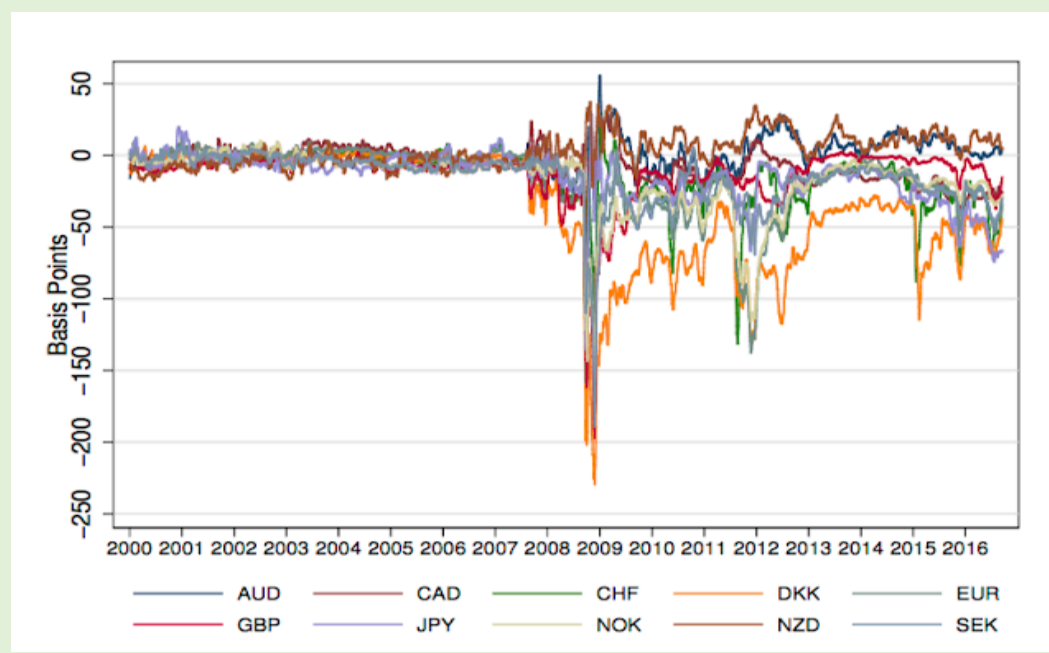
#### 6. *Exchange rate systems*

Bekaert & Hodrick: Chapter 5, entire chapter **(D)**

## 7. *Covered interest parity*

Bekaert & Hodrick: Chapter 6, sections 6.1, 6.2, 6.3 **(D)**  
sections 6.4, 6.5 **(C)**

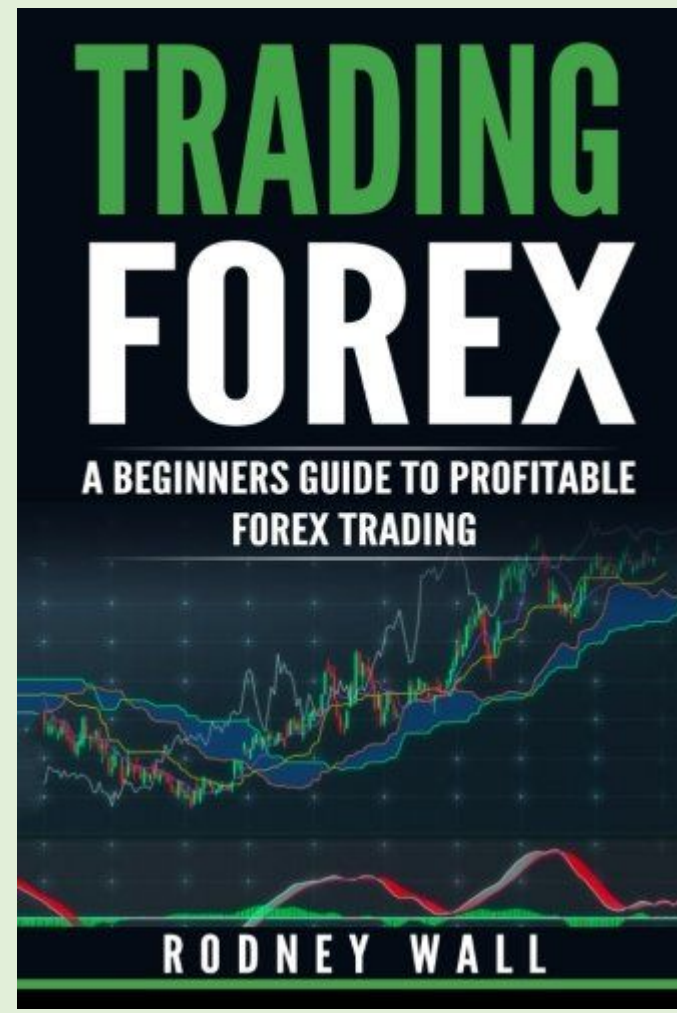
Du, Wenxin; Alexander Tepper; and, Adrien Verdelhan. 2018. “Deviations from Covered Interest Parity.” Journal of Finance 73, 915-957. **(C)**



8. *Speculation and risk in foreign exchange markets*

Bekaert & Hodrick:

Chapter 7, sections 7.1, 7.2, 7.3,  
7.5, 7.6, and Appendixes 7.2,  
7.3 **(D)**  
section 7.4 and Appendix 7.1  
**(C)**

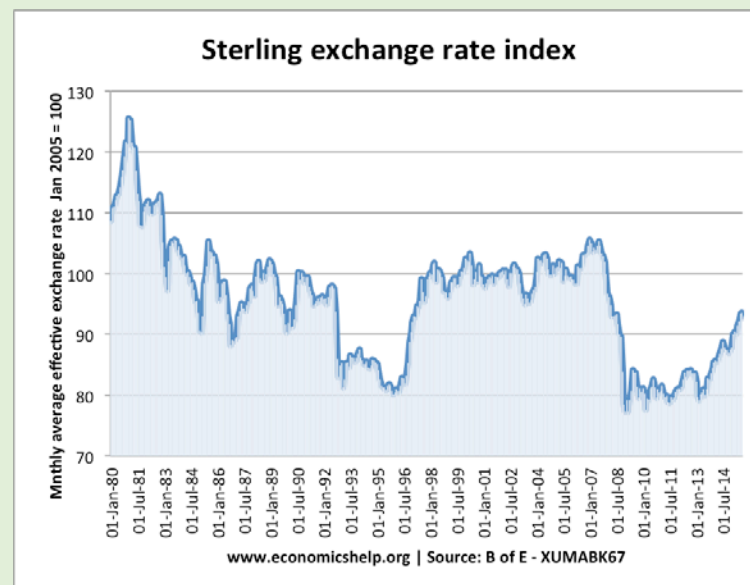


## 9. *Purchasing power parity and real exchange rates*

Bekaert & Hodrick: Chapter 8, entire chapter **(D)**

## 10. *Real exchange rates and profitability*

Bekaert & Hodrick: Chapter 9, sections 9.1 and 9.4 **(D)**  
section 9.6 **(C)**



## 11. *Exchange rate determination and forecasting*

Bekaert & Hodrick: Chapter 10, entire chapter **(D)**

Engel, Charles, and Steve Pak Yeung Wu. 2018. “Liquidity and Exchange Rates: An Empirical Investigation.” National Bureau of Economic Research, working paper no. 25397. **(C)**



## 12. *International debt financing*

Bekaert & Hodrick: Chapter 11, sections 11.1, 11.3, 11.4, 11.5 **(D)**  
sections 11.2, 11.6 **(C)**

## 13. *International equity financing*

Bekaert & Hodrick: Chapter 12, entire chapter **(D)**

## 14. *Capital market equilibrium*

Bekaert & Hodrick: Chapter 13, entire chapter including appendix **(D)**



## 15. *Political and default risk*

Bekaert & Hodrick: Chapter 14, sections 14.1, 14.3 **(D)**

Engel, Charles. 2017. "Sovereign Default." University of Wisconsin, class notes. **(D)**



16. *Foreign currency futures and options*

Bekaert & Hodrick: Chapter 20, sections 20.1, 20.3, 20.4, 20.5 and Appendix **(D)**  
section 20.2 **(C)**

17. *Interest rate and foreign currency swaps*

Bekaert & Hodrick: Chapter 21, entire chapter **(D)**

18. *International financial regulation*

Hansen, Samuel G.; Anil K. Kashyap; and, Jeremy C. Stein. 2011. “A Macroprudential Approach to Financial Regulation.” Journal of Economic Perspectives 25, 3-38. **(C)**