

Econ 690
Spring, 2019
C. Engel

Syllabus

International Financial Economics

Course Objectives: This course examines the economics of international financial markets, and how international considerations affect financial economic models. It provides an introduction to foreign exchange markets and risk; it investigates international parity conditions and foreign exchange rate determination; it studies international capital markets; it looks at the basics of international corporate finance; and, it discusses foreign currency derivatives.

Required textbook:

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

(Note that the third edition is much less expensive than used copies of the first two editions, probably because the publisher is different.)

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
Text: 608-335-6986

Course outline

Each of the readings below is designated with a “C” or a “D”. “C” means that you should read carefully, but not necessarily work through every single detail, while “D” means you should work through details. It is important to read the C readings as well as the D, and homework and test materials will come from them. The lectures will give you a better idea of what you should be getting from the C readings.

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)

Other Stuff

Misconduct Statement

Academic Integrity is critical to maintaining fair and knowledge based learning at UW Madison. Academic dishonesty is a serious violation: it undermines the bonds of trust and honesty between members of our academic community, degrades the value of your degree and defrauds those who may eventually depend upon your knowledge and integrity.

Examples of academic misconduct include, but are not limited to: cheating on an examination (copying from another student's paper, referring to materials on the exam other than those explicitly permitted, continuing to work on an exam after the time has expired, turning in an exam for regrading after making changes to the exam), copying the homework of someone else, submitting for credit work done by someone else, stealing examinations or course materials, tampering with the grade records or with another student's work, or knowingly and intentionally assisting another student in any of the above. Students are reminded that online sources, including anonymous or unattributed ones like Wikipedia, still need to be cited like any other source; and copying from any source without attribution is considered plagiarism.

The Department of Economics will deal with these offenses harshly following [UWS14 procedures](#):

1. The penalty for misconduct in most cases will be removal from the course and a failing grade,
2. The department will inform the Dean of Students as required and additional sanctions may be applied.
3. The department will keep an internal record of misconduct incidents. This information will be made available to teaching faculty writing recommendation letters and to admission offices of the School of Business and Engineering.

If you think you see incidents of misconduct, you should tell your instructor about them, in which case they will take appropriate action and protect your identity. You can also choose to contact our department administrator, Tammy Herbst-Koel (therbst@wisc.edu), and your identity will be kept confidential.

For more information, refer to <https://www.students.wisc.edu/doso/academic-integrity/>

Grievance Procedure

The Department of Economics has developed a grievance procedure through which you may register comments or complaints about a course, an instructor, or a teaching assistant. The Department continues to provide a course evaluation each semester in every class. If you wish to make anonymous complaints to an instructor or teaching assistant, the appropriate vehicle is the course evaluation. If you have a disagreement with an instructor or a teaching assistant, we strongly encourage you to try to resolve the dispute with him or her directly. The grievance procedure is designed for situations where neither of these channels is appropriate.

If you wish to file a grievance, you should go to room 7238 Social Science and request a Course Comment Sheet. When completing the comment sheet, you will need to provide a detailed statement that describes what aspects of the course you find unsatisfactory. You will need to sign the sheet and provide your student identification number, your address, and a phone where you can be reached. The Department plans to investigate comments fully and will respond in writing to complaints.

Your name, address, phone number, and student ID number will not be revealed to the instructor or teaching assistant involved and will be treated as confidential. The Department needs this information, because it may become necessary for a commenting student to have a meeting with the department chair or a nominee to gather additional information. A name and address are necessary for providing a written response.

Number of Credits

This 3 CR course has two 75 min lectures per week. Students are expected to work approximately 6 hours per week outside of class to complete assignments and learn the relevant material.