**Course Objective**

The objective of this course is to provide an understanding of the type of international financial markets that are available to investors and firms and how these markets can be used to solve corporate problems. Specifically, we provide a basic understanding of how international financial instruments can be useful for two main entities. First, as a corporation engaged in international trade, the goal is to be able to analyze and implement hedging strategies using foreign exchange instruments and to understand the basics of raising capital through international financial markets. Second, as an investor, the goal is to analyze the potential gains and shortcomings from international diversification and investments.

The class format, for the most part, will be based on the lecture system. In general the class is quantitatively oriented and basic knowledge of statistics is assumed.

**Course Requirements**

The course grade will be based on:

- **Two exams.** (Midterm (M) and Final (F)) totaling 70% of the final grade. The 70% will be applied to the max\[0.40*\text{M} + 0.60*\text{F}, 0.25*\text{M} + 0.75*\text{F}\], where the scores of M and F are standardized scores. This way you are provided with some insurance. Doing better on one of the exams provides some protection against a bad performance on the other exam. Each of the exams will be closed books, but you may prepare an 8.5x11 sheet (both sides) with formulas. The exams are problem oriented, rather than essay.

  There are no planned make-ups. Hence, unexcused absences from exams will result in a zero score in the calculation of the final grade. Excused absences from exams must be approved prior to the exam.

- **Five written assignments** (cases) worth together 20% of the final grade. To down weigh poor assignment performance, the lowest assignment score will be dropped, and the remaining 4 will be 5% each. Any assignment not handed will be given a grade of zero. Below are more details about the assignments. These assignments should be done with a group of 2-4 members. The members of the group can be from different sections.

- **Final Project** worth 10% of the final grade. This is a detailed case/project that will encompass many of the issues we covered during the semester. Further details will be given throughout the semester. The project's outcome will be presented to the class during the last week of the course.

- Class participation is highly encouraged and will count in border-line cases.

**Reading**

- A bulk pack is available from Wharton Reprographics. The bulk pack contains the first 3 lecture notes, readings, and last years' exams. Additional lecture notes and articles will be distributed during the
semester. The cost of the handouts distributed in class is not included in the cost of this bulk pack and will be billed separately at the end of the semester.

- There is no required textbook for this course. For students who desire to own a text in international finance, the following supplemental text is available at the University Bookstore: *International Financial Markets and The Firm*, by Piet Sercu and Raman Uppal, South-Western College Publishing, 1995, (referred to as IFMF hereafter). In addition for those who desire more institutional details about the various currency markets, Giddy, *Global Financial Markets*, D.C. Heath and Co., 1994. It is available on reserve at Lippincott.

- It is strongly recommended that you read *The Wall Street Journal*, and *The Economist* on a regular basis.

**Graded Assignments**

**Timing:** Every attempt will be made to distribute assignments two or more classes before the due date. They will cover material some time before the relevant topic is actually discussed in class and will be due soon after the material is taught. Students missing class, may pick them up in the “pick-up boxes” in the Finance Department, in Steinberg-Dietrich Hall Room 2300, directly opposite the receptionist’s desk. Boxes are labeled FNCE-219-Yaron.

**Team Work:** Team-work is an important part of the learning process; each student is expected to join a project team consisting of 2 - 4 members. The project team will jointly prepare and submit written assignments (assignment - case studies). All students in the group should be ready to answer questions concerning their assignment in class discussions. The individuals constituting a group must remain the same over the semester, so please choose your groups carefully.

**Assignment Report:** The first page of the written report (one per team) should have an executive summary with a numbered list indicating the final answer to each question for the case. Your response to the case questions should be short and to the point. All supporting material and work should be presented in clearly numbered appendices. Late assignments will not be accepted!! The written assignment will be discussed in class and answers will not be distributed.

**Problem Sets**

Throughout the semester I will assign suggested problem sets from IFMF which the solution to are available in the course bulk pack. Those will not be graded. I will also assign a few extra problems which are somewhat more encompassing. The teaching assistants will conduct, upon requests, sessions detailing with these problem sets and their solutions. You can hand these problem sets and the TA’s will provide feedback by marking them with a √ or √+. I strongly recommend doing these problems, first, on your own, as they ensure that you can translate the material in class into problem solving format. By regularly doing these exercises you get excellent training for exams and assignments and you maximize your return from this class.

**Important Dates**

**Midterm Exam:** Wednesday, February 19, 2003 between 6:00-8:00 pm. There will be no classes on that date.

**Final Exam:** Friday, May 5, 2003, between 1:30-3:30 pm.

The exams are comprehensive and more details concerning the material covered in the two exams will be announced in class and posted on the web page.

**Drop Date:** Friday, February 14th, 2003.
Course web site
Updated information on the course schedule, recent handouts, solutions to problem sets can be found on the

It is a good idea to check this page regularly during the semester. You will find solutions to problems sets,
answers to FAQ, last-minute announcements, and other useful material on this page.

Regrading Policy
All re-grade requests must be made in writing within 10 (ten) days of the day the exams or assignments are
returned. The exam or assignment should be placed in my mailbox in the Finance Department. I will then
pass it to the TA responsible for grading. The written request for re-grading must be specific. Any exam or
assignment submitted for re-grading of a particular question will be subjected to a complete regrading.

Teaching Assistants
Review sessions will be held periodically throughout the term. These sessions are optional and their
availability will partly be determined by their demand. These sessions
should provide an opportunity to ask questions about the course material and problem sets. The name of the
teaching assistants and their office hours will be distributed during the first week of class and will be posted
on the web page.

Prerequisites
The prerequisites for this course are FNCE 101 or ECON 4, FNCE 102, STAT 101.
Course Outline

Optional reading: IFMF refers to International Financial Markets and the Firm by Sercu and Uppal. Giddy, Global Financial Markets, D.C. Heath and Co., 1994 is another text which has more institutional details on currency markets. Additional readings are contained in the bulkpack and will be handed out in class. I expect to spend approximately a week on each of the subsections listed below.

I. International Exchange Markets and Instruments

1. Overview - International and European Monetary Systems (wk1)
   *Optional reading* : IFMF-1, Giddy 2, pp.13-37

2. Exchange Rate Behavior and Spot Markets (wk1-wk2)
   *Optional Reading* : IFMF 2, Giddy 3, pp. 45-59, 5

3. Forward Exchange: Arbitrage, Hedging, and Speculation (wk3-4)
   *Optional Reading* : IFMF (3-4), Giddy 7, pp. 173-191

4. Futures (wk5)
   *Optional Reading* : IFMF 5, Giddy 7, pp. 191-198

5. Options (wk6-7)
   *Optional Reading* : IFMF (6,8), Giddy 8

6. Swaps (wk7-8)
   *Optional Reading* : IFMF 10, Giddy 13

II. Exchange Rate Determination

7. Purchasing Power Parity (wk9)
   *Optional Reading* : IFMF 11, Giddy 5

8. Unbiased Expectations Hypothesis (wk10)
   *Optional Reading* : IFMF 14

9. Forecasting Exchange Rates (wk11)
   *Optional Reading* : IFMF 15

10. Quantifying Exchange Rate Risk (wk11)

III. International Equity and Bond Markets

11. International Portfolio Choice and Equity Markets (wk12)
    *Optional Reading* : IFMF 12, Giddy 14

12. Syndicated Loans and Short Term Euronotes (wk13)
    *Optional Reading* : IFMF 9, Giddy 9

13. Valuation of International Projects with Currency Risk (wk13)
    *Optional Reading* :

In addition several current event topics such as the Euro, Argentina Peso crisis, etc., are treated at various points in the semester. These and other notes will be handed out in class.
Classes, Assignments and Exams

Mon. Jan. 13
Mon. Jan. 15
Mon. Jan. 20
Wed. Jan. 22
Mon. Jan. 27  Assignment #1 is due (tentative date), project groups are fixed
Wed. Jan. 29
Mon. Feb. 3
Wed. Feb. 5
Mon. Feb. 10  Assignment #2 is due (tentative date)
Wed. Feb. 12
Mon. Feb. 17
Wed. Feb. 19  Exam #1 (6-8 pm) no class
Mon. Feb. 24
Wed. Feb. 26
Mon. Mar. 3  Assignment #3 is due (tentative date)
Wed. Mar. 5
Mon. Mar. 10 No Class: Spring Break
Wed. Mar. 12 No Class: Spring Break
Mon. Mar. 17
Wed. Mar. 19
Mon. Mar. 24
Wed. Mar. 26  Assignment #4 is due (tentative date)
Mon. Mar. 31
Wed. Apr. 2
Mon. Apr. 7
Wed. Apr. 9  Assignment #5 is due (tentative date)
Mon. Apr. 14
Wed. Apr. 16
Mon. Apr. 21  class-presentations
Wed. Apr. 23  class-presentations

Friday. May 5th  Final Exam  (1:30-3:30)
FREQUENTLY ASKED QUESTIONS ABOUT THE COURSE AND THEIR ANSWERS

A. Texts

1. Is there a required text for this course?  No. The only required material is in the bulkpack (and future handouts) containing copies of overheads. This bulkpack is available at Wharton Reprographics. The handouts will be distributed throughout the semester.

2. Is there optional supplementary reading for this course? Yes, the Sercu-Uppal “International Financial Markets and the Firm” is the closest to the class text and uses similar notation. This text is available at the University bookstore. In addition the book Global Financial Markets, by Ian H. Giddy (D.C.Heath and Co., 1994) provides greater information about some of the institutional aspects of various markets we will be studying. This text is available at Lippincott Library on reserve. Neither texts are required.

3A. I am trying to decide whether I should buy the Sercu-Uppal text. What issues should I consider? The book unfortunately is outdated in terms of numbers and figures. However, if you feel the need to go over some of the more technical issues with alternative examples/presentations, it may be worthwhile to buy the text as accompanying material. I also put it as a reserve book at Lippincott.

3B. I am trying to decide whether I should buy the Giddy text. What issues should I consider? If you plan to work in the area of international financial markets and like having a bound text for reference, it may be worthwhile to buy the text. If not, then it is unnecessary.

B. Exams:

1. What if I have another midterm exam scheduled for time as the midterm for this course? First, see if the other course has planned make-ups as this class does not. Let me know of such conflicts in the first two-weeks of class.

2. What can I bring to the exam? Students may bring to the exam an 8½ x 11 crib sheet, with writings on front and back. In addition, students should expect to bring a calculator and writing utensil. Calculations and work should be shown on the exam sheet. Scratch paper will be provided during the exam upon request.

3. Will there be any review sessions? Pre-exam review sessions will generally be given the day before the exam.

C. Assignments:

1. What is the nature of the “Assignments”? Of the six written assignments, five are cases involving analysis of hedging and/or costs of financing. Some assignments require computer analysis of financial data.

2. How should the assignments be prepared? The written assignments will be prepared in groups of at least 2 and at most 4 students (the groups may cross the three sections). The individuals constituting the groups must remain the same over the semester.

3. Where can I find the assignments? The cases and the accompanying questions as well as the computer projects will be distributed throughout the course and will be available on the course web-site.

4. When are the assignments due? The precise dates on which the assignments are due will be announced at least one week before. However, the course outline above gives a very tentative schedule. Note: This schedule is subject to change!
5. My group-mates are in a later section than I am (e.g., I am in the 10:30 section and they are in the 3:00 PM section.) When is the assignment from our team due? The assignment is due at the beginning of the class in the earliest section in which a team member is present. Thus, if you are attending the Noon section, you must turn in the assignment for your whole team at that time.

6. My group-mates and I have a lot of interviews this semester. What happens if we get behind and don't do very well on an assignment? The lowest grade of the five regular assignments is automatically dropped.

7. Can I hand in assignments late? The assignments are discussed in detail in class. Therefore, late assignments cannot be accepted. However, the lowest grade on the assignments is dropped, so this policy should not be a problem.

8. What if I know I can't be in class on the day of the assignment? What do I do? Assignments can always be handed in early in my mailbox in the Finance Department. Please do not email assignments to me. Due to technical difficulties, they have sometimes not been received or have gotten lost.

9. Can I choose just not to hand in one assignment? Yes. The lowest grade (of zero) will be automatically dropped.

D. Hand-Outs

1. Will you be handing out answers to exams and assignments? The answers to the exams and practice questions are part of the bulkpack. The answers to the assignments will be discussed thoroughly in class and will not be distributed.

2. How do I get something that has been handed out if I miss class? All remaining copies of hand-outs will be placed in the "pick-up" boxes in the Finance Department once class is over. So please check these "pick-up" boxes if you miss class. Furthermore, all hand-outs will be placed on the course web-site.

3. Where are the "pick-up" boxes located? To get to the boxes, enter the Finance Department at 2300 SH-DH (ask the information desk downstairs if you don't know how to get there.) On your right you will see the Receptionist's desk. On your left you will see a bookshelf with the "Pick-Up" boxes. Please look in all boxes labeled Professor Yaron, Finance 219 (ignore any possible section number on the boxes).

F. Regrades

1. What is your regrade procedure? These procedures have been adopted to protect the rights of all students.

   a. Please write a brief explanation of why you believe your paper has been incorrectly graded. For an exam, please explain why your answer differs from that on the answer sheet. Give the original paper and your explanation to me or else place it in my mailbox. I will then give the paper and explanation to the TA responsible for grading and he/she will discuss the regrade request with me. After we have come to a decision about your request, the regraded assignment will given back with an explanation.

   b. Written assignments and exams may be submitted for regrading only up to 10 days after the graded assignment/exams have been distributed. After that, no regrades will be considered. This is to provide consistency in grading over the course of the semester.

   c. The TAs and I reserve the right to regrade the entire assignment or exam, which can result in a lower grade. (It has happened.)
d. The TAs and I will not regrade the assignment with the student present.

G. Sitting in Different Sections

1. I have an occasional time conflict during the section in which I am registered. Can I sit in the lecture of another section? Yes.