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Syllabus
INTERNATIONAL FINANCIAL MARKETS
BEM 112
Spring Quarter, 2018
Tuesday & Thursday, 1:00-2:20 p.m.
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Text	**Cases**
Global Investments, 6th Edition	
by Bruno Solnik and Dennis McLeavey	From the Bookstore

Instructor
Richard Roll, Baxter 235
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Office hours: Thursday 3:00-5:00 p.m. .

Course Content

The course offers an introduction to international financial markets, their comparative behavior, and their inter-relations. The principal focus will be on assets traded in liquid markets: currencies, equities, bonds, swaps, and other derivatives. Attention will be devoted to (1) institutional arrangements, taxation, and regulation, (2) international arbitrage and parity conditions, (3) valuation, (4) international diversification and portfolio management, (5) derivative instruments, (6) hedging, (7) dynamic investment strategies, (8) topics of particular current relevance and importance.

Prerequisites

Prerequisites are BEM 103 and demonstrable knowledge of basic statistics.

Grading

The course grade will be 10% on class participation, 30% on two written cases (15% each), 25% on a mid-term examination, and 35% on a final examination. Several other cases will be discussed in class during the quarter and presence is mandatory on those dates and will count toward class participation.

Written Assignments

Written analyses of cases must be handed in at the beginning of class <u>on two occasions only</u>: the "Bank for International Development" case on April 19 and the "DATA ANALYSIS: International Equity Return" on June 5. These written analyses can be completed as group projects; Maximum group size: four persons. Other cases and Problem Sets will be discussed in class and responses will help determine the class participation grade. <u>No written submission is required for these other cases, nor for the Problem Sets.</u>

Examinations

The mid-term examination will be on May 8 during the regularly scheduled class period. The final examination is scheduled for one of the days from June 13 to 15 inclusive but it can be moved <u>provided</u> that everyone in the class agrees on the time and date. Anyone who cannot take the exams at the scheduled or agreed-upon times should not register for the course. Everyone must take the exams at the same time. Exams will be open book, open notes.

Bonus Points

In addition to the grades based on the assignments just mentioned, it is possible to earn **Bonus Points** (each point adds one percent to the final cumulative grade.) One **Bonus Point** will be awarded for each of the following:

- Correcting the instructor in class on three separate occasions
- On three occasions being the first to answer correctly a question during class
- Providing new information on software usage
- Pointing out a serious error in an analytical method or a reading assignment
- Helping a group of other students learn software or concepts[1]
- Getting another student to improve 10 percentage points from midterm to final[2]

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[1] The group of other students must inform the instructor of the helpful colleague.
[2] For instance, if the improving student scores 50 out of 100 points on the midterm, the final exam score would have to be 60 out of 100 <u>and</u> the improving student would have to convince the instructor that the helpful student was instrumental in the gain.

Schedule of Classes and Assignments[3]

Date	Topic	Assignment[4]
April 3	Introduction to the International Monetary System and Financial Markets	ch. 1.
April 5	International Parity Relations: *Notes on Intl Parity Conditions* Problem Set #1	ch. 2.
April 10	*Balance of Payments* Problem Set #2	ch. 2.
April 12	Exchange Rate Determinants and Forecasting Central Bank Intervention *PPP and EMH* Problem Set #3	ch. 3.
April 17	The "Carry Trade" (or the Forward Premium "Puzzle")	Handout.
April 19	**CASE: Bank for International Development**[5]	
April 24	International Fixed-Income Markets *Term Structure Arithmetic* Problem Set #4	ch. 7.
April 26	Costs of Financing **CASE: J.C. Penney (B)**	9-286-118.
May 1	Restructuring Sovereign Debt **CASE: J.P. Morgan's Mexican Bank Debt**	9-289-013.

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[3] Italicized items are readings from the course packet.

[4] All reading assignments are required. Supplementary non-required reading will be distributed at various class sessions. A number such as "9-186-079" refers to a Harvard Case. Cases and Homework are in the course packet. Homework will be discussed in class on the date indicated; (no written solutions are required.) Items in italics are special readings available on the course web page.

[5] This case requires an empirical analysis of exchange rates, inflation, and interest rates for the US and the UK. Real data will be provided on the computer in spreadsheet form. A written analysis must be turned in at the beginning of the class period. You will have to be familiar with spreadsheets and statistical computations to successfully complete this assignment.

May 3	International Bond Portfolio Strategy	
May 8	**Mid-Term Examination**	
May 10	Currency Futures and Hedging	ch. 10, pp. 433-452.
	Continuous Hedging and Valuation	ch. 11, pp. 485-496
May 15	Swaps	ch. 10, pp. 453-464.
	Valuing and Unwinding a Swap	
	CASE: Gaz de France	9-288-030.
May 17	Currency Options	ch. 10, p. 464-476.
May 22	No Class	
May 24	Equity Markets	chs. 5-6.
	International Portfolio Management,	chs. 13
		& 9, pp. 385-420.
May 29	Risk Control, and Performance Measurement	ch. 12.
	Mean Variance Optimization	
	Alternative Assets	ch. 8.
	Emerging Markets I	ch. 9, pp. 421-425.
May 31	International Portfolio Selection	
	EV with FX hedging	
June 5	**Case: International Equity Returns**[6]	
June 7	Emerging Markets II	
June 13-15	**FINAL EXAMINATION**	

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[6]An extensive data sample of international equity returns (country indices) and exchange rates will be provided. You will be expected to analyze the scope of international diversification and suggest a strategy for diversifying across countries; i.e., what would be a sensible international asset allocation for a U.S. investor, a Japanese investor? A written analysis is due at the beginning of class. You will have to know some statistics to complete this assignment successfully.