

### Course Syllabus

This course examines the economics of international financial markets. We will study the economics of foreign exchange rates, the determination of real and nominal exchange rates, foreign exchange risk, international capital market equilibrium, the determination of capital flows and current account balances, special features of international capital markets, foreign currency options, and swaps.

The last part of the course (approximately four weeks) will be devoted to the study of the international financial crisis of 2007-2009. We will look at the roots of the crisis and the reasoning behind the policy moves taken by the Federal Reserve and other central banks, as well as other policy reactions. This episode will help to deepen our understanding of capital markets, and hopefully what we have learned about capital markets during the first part of the class will help deepen our understanding of the crisis.

This course studies the economics of these markets. We are interested in the economic forces that drive international economic relationships. That is, we want to know why things work the way they do. It is not a course in asset pricing, or financial engineering. For example, we will not devote much time to deriving formulas that price exotic financial instruments.

Keeping up with the readings and lectures is important in this class. I really feel like there is a knife-edge in terms of what you get out of the class – with enough work you can learn a lot, but if you fall behind you end up learning almost nothing. There are three parts of the learning that are necessary – doing the readings, attending lecture, doing homework. Here is how I hope to encourage you to do all three:

1. In each lecture (after the first), I will ask you to turn in a question or thought you have on the assigned readings. This will accomplish three things: it is an informal way for me to keep attendance records; it encourages you to keep up with the reading; and, I will get feedback from you on the readings.
2. I will post my lecture slides. But my lecture slides are not meant to be self-contained. In a sense, they are prompts to remind me what I want to talk about. Much of the intuition, the explanation, and the analysis are not written out on the slides. It is important to take good notes in the lecture. The exams will be based both on the readings and the lectures.
3. Homework. You really need to do some hands-on examples to learn this stuff. My policy on working with other is this: You should decide how much to work with your classmates. Sometimes it helps to get feedback from a classmate, or the T.A., or me when you are stuck. On the other hand, it is probably not in your interest simply to copy somebody else's work because you won't learn it. I will not monitor the amount of cooperation. The only thing I

ask is that you turn in work in your own handwriting or typed by yourself – that is, don't turn in a photocopy of somebody else's work with your name on it.

The grades are based on two tests during the semester, a third test during the final exam period, the feedback on the readings that you turn in, and the homework. The weights are 25% for each test, 10% for the feedback, and 15% on the homework.

The only readings for the first 11 weeks of the course come from:

Bekaert, Geert, and Robert J. Hodrick. 2009. International Financial Management (Pearson).

This book is really written as a textbook for an MBA class in multinational financial management. But most of the book is devoted to economics, and I believe it is the best book available on the economics of international financial markets. (I apologize for the fact that it is expensive. In this case, the value of the book relative to its competitors is worth the price.) We are not going to read the five chapters directly devoted to corporate finance and management (chapters 15-19), but will cover the rest.

My plan for the last four weeks is to use the following book on the crisis, which is downloadable free on the internet:

Macroeconomic Stability and Financial Regulation: Key Issues for the G20, edited by Mathias Dewatripont, Xavier Freixas and Richard Portes (Centre for Economic Policy Research)

This set of essays was written as background for the London Summit of the G20 countries on April 2, 2009. It is a very good set of essays (and free!) However, since the situation is still evolving and more is still being written, I may change the reading as we near this part of the class.

The exams will be on September 30, October 28, and December 23. The last one is scheduled for 10:05 A.M. – 12:05 P.M. Please make note of this date now! We got an unlucky draw on the exam date, but all we can do is live with it. Do not make plans to travel out of Madison before the exam!!

I will maintain a website with all of the relevant class information:

[www.ssc.wisc.edu/~cengel/Econ666](http://www.ssc.wisc.edu/~cengel/Econ666)

I will post upcoming reading assignments, homework assignments, answers to homework and tests, and lecture slides.

My office is 7460 Social Sciences. My official office hours will be right before class, 1:15-2:15 p.m., MW, and also Wednesday morning, 11-noon. I am usually in my office all the time. You can make an appointment to see me at times other than official office hours, or you can drop by. Usually I am happy to talk to you at any time, but sometimes I may have to ask you to come back later if it is not during official office hours. E-mail: [cengel@ssc.wisc.edu](mailto:cengel@ssc.wisc.edu)