



GLOBAL FINANCIAL MARKETS

FINC-GB.3388

Spring 2014

Sections: T TR 3:00pm-4:20pm (KMC 3-80)

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TA: TBA
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The Professor

Matteo Maggiori is an Assistant Professor in the Finance Department at the NYU Stern School of Business and holds an affiliated appointment as Assistant Professor in Economics at the NYU Department of Economics. Matteo joined Stern in Fall 2012 and spent the 2012-13 academic year on leave as the International Economics Section Fellow at Princeton University. He graduated in 2012 with a PhD in Finance by the University of California, at Berkeley where he was also recognized with the Outstanding Graduate Student Instructor teaching award. His background and research interests are in international macroeconomics and finance. Matteo's research has been recently honored by both being selected for the Review of Economics Studies European tour, an honor bestowed every year to the seven most promising graduating doctoral students worldwide, and being selected as the winner of the 2013 AQR award, an annual award by hedge fund AQR for the best applied unpublished paper in finance. Before pursuing a PhD, Matteo worked in London and New York as a trader of foreign exchange and interest rates at J.P. Morgan.

Course Description

Globalization and integration of financial markets present unique opportunities and unique risks for investors, bankers, firms, and policymakers. This course is designed to provide you with a strong conceptual background for financial decision-making related to international finance, banking, and corporate finance. This course is of fundamental importance for anyone aiming to pursue a career in banking, financial management, international organizations, financial press, and policy organizations. The first part of the course focuses on currencies, including an in-depth analysis of exchange rates, international monetary systems, contemporary currency regimes, and current financial crises. We will stress practical applications and the relevance of the topics studied for the recent global financial crisis. The course then covers international capital markets and investment in foreign financial assets. Finally the

course turns to international corporate finance, including a firm's exposure to various kinds of exchange rate risks, and the methods and financial instruments, including options and futures, used to manage those risks.

We will also dedicate a few lectures to: advanced topics covering cutting hedge research in international finance and explore its relevance for the practice of international investment management, and guest lectures from leading experts in banking, hedge funds, rating agencies, and policy making.

Pre-Requisites and Co-Requisites

Pre-requisite: COR1-GB.2311 (B01.2311) Foundations of Finance. Co-requisite: FINC-GB.2302 (B40.2302) Corporate Finance. While we will build most concepts from first principle and focus on the intuition, students are expected to understand basic finance concepts such as cost of capital, portfolio theory, and basic derivative pricing (options and futures). Ideally, they should also be comfortable with concepts in international trade, such as the role of comparative advantage, international capital flows, and basic exchange rate policies.

Required and Recommended Materials

The textbook for the course is

Geert Bekaert and Robert Hodrick, **International Financial Management**, Pearson Prentice Hall, 2nd Edition, 2012.

There is 1 required case that is available in the bookstore in the form of an electronic course pack:

Hedging Currency Risks at AIFS, Case No. 9-205-026, HBS Publishing

There will also be lecture notes, handouts (e.g., journal and news articles), and supplementary materials (e.g., Excel spreadsheets) for many classes. Lecture notes and handouts will be distributed at the beginning of class, and they will also be available on Blackboard before the relevant class session. Extra copies of these materials will *not* be available in my office. If you miss or lose the handouts, you should print them out from Blackboard. The supplementary materials will also be available on Blackboard, as will links to other relevant information.

Finally, you need a calculator for this class. It is a distinct advantage to have a financial calculator, but not an absolute requirement.

Course Requirements

Assignments:

The assignments for the course consist of 5 problem sets, 1 case, 2 in-class quizzes, and a final examination. Problem set and case questions will be handed out in class (and will be available on Blackboard). Each student should hand in an individual set of solutions with his/her name and section prominently displayed on the top. However, I encourage you to discuss the problem sets and cases with other students. Quizzes and final exam questions will draw heavily from the problem sets.

The in-class quizzes and the final exam will consist of multiple choice questions and short problems like those on the problem sets, in the textbook, and in the lecture notes. They will be closed book exams; however, you may bring a single 8½ by 11 sheet of paper with your notes (double-sided) to each quiz and 3 sheets (double-sided) to the final exam. In addition, I will provide a formula sheet with all the relevant formulas. The final exam will be cumulative. There will be no make-up exams. If you know that you will be unable to make it to class on the scheduled date, let me know far enough ahead of time so that you can take the test beforehand.

Other requirements:

In addition to the problem sets, students should attempt to do end-of-chapter problems from the textbook. Suggested problems will be listed in the lecture notes. Answers to these problems will not be collected, and the solutions will be distributed. These problems are an excellent way to check your mastery of the material. Looking at the solution before attempting to do the problem is NOT a good way to approach these problems.

Class attendance is an important part of the learning experience. I do not take formal attendance; however, keep in mind that class participation does account for 5% of the final grade. If you are not in class, you cannot participate in the discussion. If you will miss class, please inform me beforehand via email. (One fifth of the class participation grade, 1% of the total grade, will be given for filling out an online customized course survey at the end of the semester.) For those of you who may miss class, I will attempt to tape every class session. The URL for the streaming video will be posted on Blackboard as soon as it becomes available. However, keep in mind that viewing the video is not a good substitute for attending class.

Finally, participation is an essential part of learning in this course. Students are expected to participate in all facets of classroom learning. In particular, you are expected to contribute, in a constructive manner, to classroom discussions. These contributions will make up the remaining four fifths of the class participation grade. The assigned reading should be done before the corresponding class session, and you are also expected to keep up with current business news by reading a publication such as the *Wall Street Journal*, the *Financial Times*, and/or the *Economist*. I will attempt to alert you to particularly interesting news items via an announcement on Blackboard. Thus, you should make an effort to check the course page regularly.

Policies and Procedures

The problem sets and cases should be handed in before the start of the class session in which they are due. (Due dates can be found on the final page of the syllabus.) They can be given to me in class or emailed. Regardless of the method of delivery, the same deadline applies. The deadline refers to the time at which I receive the assignment, not the time at which you send it. Assignments that are late but within 24 hours of the deadline, will receive ½ credit. After 24 hours, no assignments will be accepted (unless due to documented serious illness or family emergency); it is unfair to the other students in the class.

Students are expected to adhere to the NYU Stern Code of Conduct, a copy of which can be found at http://www.stern.nyu.edu/cons/groups/content/documents/webasset/con_039512.pdf. A student's responsibilities include, but are not limited to, the following:

- A duty to acknowledge the work and efforts of others when submitting work as one's own. Ideas, data, direct quotations, paraphrasing, creative expression, or any other incorporation of the work of others must be clearly referenced.
- A duty to exercise the utmost integrity when preparing for and completing examinations, including an obligation to report any observed violations.

Students whose class performance may be affected due to a disability should notify me immediately so that arrangements can be made to accommodate their needs in consultation with the Henry and Lucy Moses Center for Students with Disabilities (<http://www.nyu.edu/csd/>).

I will make every effort to start and end class on time. If you arrive late, please enter quietly without disturbing the rest of the class. While in class, please be courteous to your fellow classmates and me. During lectures and discussions only one person should speak at a time. I encourage you to ask questions to your fellow students and me. I consider a good question as valuable as a good answer. In lectures, it is difficult to ask good questions unless you already have some familiarity with the material. Therefore, you should do the required reading before the relevant class session. Laptops, cell phones, Smartphones and other electronic devices are a disturbance to both students and professors. All electronic devices must be turned off prior to the start of each class meeting.

I am available during the office hours listed at the beginning of the syllabus. If I have to cancel office hours, I will try to make an announcement both in class and on Blackboard. If you cannot make it at these times, in exceptional circumstances, you can make an appointment to see me at another time. I am usually in the office every day.

Grading Policy

The final grade will be calculated as follows:

Class participation	5%
Problem sets	15%
Case	5%
Quizzes	40%
Final exam	35%

At NYU Stern we seek to teach challenging courses that allow students to demonstrate differential mastery of the subject matter. Assigning grades that reward excellence and reflect differences in performance is important to ensuring the integrity of our curriculum. As such, following departmental guidelines, grades for this course will follow approximately the following distribution:

A's (A/A-)	25-35%
B's (B+/B/B-)	50-70%
C's and below	5-15%

Note that while we use these ranges as a guide, the actual distribution for this course will depend upon how well the class actually performs in the course.

Course Outline

The problem sets and cases are listed in the session when they are due (see the last page for dates). BH refers to Bekaert and Hodrick, **International Financial Management**. Readings should be done prior to the class session in which the material is discussed. Any changes to this schedule will be announced in class and on Blackboard.

<u>Session</u>	<u>Date</u>	<u>Topics</u>	<u>Assignments</u>
1	Tues., Feb. 4	Introduction	Syllabus, newspaper articles
2	Thurs., Feb. 6	International Finance The Foreign Exchange Market	BH: Chap. 1 (skim), 2.1-2.3, 2.5
3	Tues., Feb. 11	Forward Markets Exchange Rate Risk	BH: Chap. 3
4	Thurs., Feb. 13	Exchange Rate Systems	BH: Chap. 5
5	Tues., Feb. 18	Exchange Rate Determination I: Covered Interest Parity	BH: Chap. 6 Problem Set #1
6	Thurs., Feb. 20	Exchange Rate Determination II: Uncovered Interest Parity	BH: Chap. 7
7	Tues., Feb. 25	Advanced Class: Modeling Trading Strategies, the Carry Trade	Slides, Lecture Notes, and Lettau, Maggiori, Weber “Downside Risk in Currency Markets and Other Asset Classes”, forthcoming <i>Journal of Financial Economics</i>
8	Thurs., Feb. 27	Exchange Rate Determination III: Purchasing Power Parity	BH: Chap. 8
9	Tues., Mar. 4	Exchange Rate Forecasting	BH: Chap. 10 Problem Set #2
10	Thurs., Mar. 6	Guest Speakers 1	Review material, prepare questions
11	Tues., Mar. 11	International Capital Markets I: International Debt Financing	BH: Chap. 11
12	Thurs., Mar. 13	International Capital Markets II: International Equity Financing	BH: Chap. 12
	Tues., Mar. 18	NO CLASS, SPRING BREAK	Enjoy
	Thurs., Mar. 20	NO CLASS, SPRING BREAK	Enjoy
13	Thurs., Mar. 25	Quiz #1	Review material, prepare questions
14	Tues., Mar. 27	International Capital Markets III: Equilibrium	BH: Chap. 13
15	Thurs., Apr. 1	International Investments	BH: Chap. 13
16	Tues., Apr. 3	Currency Futures and Options	BH: Chap. 20 Problem Set #3
17	Thurs., Apr. 8	Swaps	BH: Chap. 21
18	Tues., Apr. 10	Risk Management I: Real Exchange Risk	BH: Chap. 9
19	Thurs., Apr. 15	Risk Management II: The Hedging Decision	BH: Chap. 17

Session	Date	Topics	Assignments
20	Tues., Apr. 17	Risk Management III: Futures and Options	BH: Chap. 20 (revisited) Problem Set #4
21	Thurs., Apr. 22	Quiz #2	Study
22	Tues., Apr. 24	Country and Political Risk	BH: Chap. 14
23	Thurs., Apr. 29	Guest Speakers 2	Review material, prepare questions
24	Tues., May 1	Currency Hedging	Case: AIFS
25	Thurs., May 6	Advanced Class: Modern Models of Exchange rate determination in Financial Markets	Slides, Lecture Notes, and Gabaix, Maggiori, "International Liquidity and Exchange Rate Dynamics", working paper NYU
26	Tues., May. 8	Review Class	Review and study Problem Set #5

Assignment Due Dates

Assignments (problem sets, cases, exams) are due on the following dates. Problem sets and cases are due before the start of the corresponding class session. Assignments that are late, but within 24 hours of the deadline, will receive ½ credit. After 24 hours no assignments will be accepted (unless due to documented serious illness or family emergency). There will be no make-up exams. Any changes to this schedule will be announced in class and on Blackboard.

Assignment	Due Date
Problem Set #1	Tues., Feb 18
Problem Set #2	Tues., Mar. 4
Quiz #1	Thurs., Mar. 25
Problem Set #3	Tues., Apr. 3
Problem Set #4	Tues., Apr. 17
Quiz #2	Thurs., Apr. 22
Case: AIFS	Tues., May. 1
Problem Set #5	Tues., May. 8
Final Exam	TBA