

Draft as of May 18, 2015.
Subject to change.



GLOBAL FINANCIAL MARKETS

FINC-GB.3388

Fall 2015

Section 1: Tuesday 6:00-9:00pm (Tisch UC-01)

Instructor: Prof. Richard Levich
Office: KMC 9-72
Office Hours: Tues./Wed. 11am-noon, 3:30-4:30pm, or by appointment
Telephone: (212) 998-0422
Email: rlevich@stern.nyu.edu
Homepage: NYUClasses

TA: TBA
Office Hours: Ernst & Young Learning Center (Tisch LC) TBA

Course Description

Globalization and integration of financial markets present unique opportunities and unique risks for all kinds of firms and investors. This course is designed to provide you with a strong conceptual background for financial decision-making related to international corporate finance and international investing. The first part of the course is focused on currencies, including an in-depth analysis of exchange rates, international monetary systems, contemporary currency regimes, and current financial crises. 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 used to manage those risks, and international capital budgeting.

Pre-Requisites

For MBA students, Foundations of Finance (COR1-GB.2311) is a pre-requisite for the course and Corporate Finance (FINC-GB.2302) is a co-requisite. For undergraduate students with permission to enroll, Corporate Finance (FINC-UB.0007) and Economics of Global Business (ECON-UB.0011) are pre-requisites for this course. Students are expected to understand basic finance concepts such as cost of capital, capital budgeting, capital structure theory, portfolio theory, and basic derivative pricing (options and futures). 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 are 3 required cases that are available in the bookstore in the form of an electronic course pack:

Baker Adhesives, Case No. UVA-F-1516, Darden Business Publishing
Carrefour S.A., Case No. UVA-F-1470, Darden Business Publishing
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., sample Excel spreadsheets) for many classes. Lecture notes and handouts will be distributed at the beginning of class, and they will also be available on NYU Classes 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 NYU Classes. The supplementary materials will also be available on NYU Classes, 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 4 problem sets, 3 cases, 1 in-class quiz, and a final examination. Problem set and case questions will be handed out in class (and will be available on NYU Classes). Each student should hand in an individual set of solutions with his/her name and section prominently displayed on the top. However, you may discuss the problem sets and cases with other students as long as you acknowledge any help you receive on the front page of your solutions. 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 and fill-in-the-blank 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 available on NYU Classes. 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. 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 NYU Classes 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 determine your 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 NYU Classes. 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 end 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.

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 of 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 NYU Classes. If you cannot make it at these times, you can make an appointment to see me at another time. I am usually in the office every day except Friday. You can also take a chance and just drop by my office. However, even if I am in my office, I may have to turn you away if I am busy.

Academic Integrity

Integrity is critical to the learning process and to all that we do here at NYU Stern. As members of our community, all students agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:

- Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.

- Clearly acknowledge the work and efforts of others when submitting written work as one’s own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.
- Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct. Our support also includes reporting any observed violations of this Code of Conduct or other School and University policies that are deemed to adversely affect the NYU Stern community.

The entire Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here: www.stern.nyu.edu/uc/codeofconduct

General Conduct and Behavior

Students are also expected to maintain and abide by the highest standards of professional conduct and behavior. Please familiarize yourself with Stern's Policy in Regard to In-Class Behavior & Expectations (<http://www.stern.nyu.edu/portal-partners/current-students/undergraduate/resources-policies/academic-policies/index.htm>) and the NYU Disruptive Behavior Policy (<http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/bullying--threatening--and-other-disruptive-behavior-guidelines.html>).

Students with Disabilities

If you have a qualified disability and will require academic accommodation of any kind during this course, you must notify me at the beginning of the course and provide a letter from the Moses Center for Students with Disabilities (CSD, 998-4980, www.nyu.edu/csd) verifying your registration and outlining the accommodations they recommend. If you will need to take an exam at the CSD, you must submit a completed Exam Accommodations Form to them at least one week prior to the scheduled exam time to be guaranteed accommodation.

Grading Policy

The final grade will be calculated as follows:

Class participation	6%
Problem sets	12%
Cases	12%
Quiz #1	30%
Quiz #2	40%

At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty have agreed that for elective courses the individual instructor or department is responsible for determining reasonable grading guidelines.

The Finance Department has elected to use the following grading guidelines for this course and all other elective courses. Instructors should award grades of “A” or “A-” to approximately 35% of students in elective courses with enrollments of more than 25 students. In elective classes of less than 25 students, the instructor is at liberty to give whatever grades they think the students deserve, while maintaining rigorous academic standards.

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 NYU Classes.

<u>Session</u>	<u>Date</u>	<u>Topics</u>	<u>Assignments</u>
1	Tues., Sept. 29	Introduction	
		International Finance The Foreign Exchange Market	BH: Chap. 1 (skim), 2
2	Tues., Oct. 6	Forward Markets Exchange Rate Risk	BH: Chap. 3
		Exchange Rate Systems	BH: Chap. 5
	Tues., Oct. 13	NO CLASS – Legislative Day	
3	Tues., Oct. 20	Exchange Rate Determination I: Covered Interest Parity	BH: Chap. 6 Problem Set #1
		Exchange Rate Determination II: Uncovered Interest Parity	BH: Chap. 7
4	Tues., Oct. 27		Case: Baker Adhesives
		Exchange Rate Determination III: Purchasing Power Parity	BH: Chap. 8
5	Tues., Nov. 3	Exchange Rate Forecasting	BH: Chap. 10 Problem Set #2
		Currency Investing	Pojarliev & Levich
6	Tues., Nov. 10	Quiz	Study!
		International Capital Markets I: International Debt Financing	BH: Chap. 11
7	Tues., Nov. 17	International Capital Markets II: International Equity Financing	BH: Chap. 12
		International Capital Markets III: Equilibrium	BH: Chap. 13
8	Tues., Nov. 24	International Investments	N/A
			Case: Carrefour
9	Tues., Dec. 1	Currency Futures and Options	BH: Chap. 20 Problem Set #3
		Swaps	BH: Chap. 21
10	Tues., Dec. 8	Risk Management I: Real Exchange Risk	BH: Chap. 9
		Risk Management II: The Hedging Decision	BH: Chap. 17
11	Tues., Dec. 15	Risk Management III: Futures and Options	BH: Chap. 20 (revisited) Problem Set #4
		Country and Political Risk	BH: Chap. 14

<u>Session</u>	<u>Date</u>	<u>Topics</u>	<u>Assignments</u>
12	Tues., Dec. 22		Case: AIFS
		Final Examination	Study!

Assignment Due Dates

Assignments (problem sets, cases, exams) are due on the following dates. Problem sets and cases are due before the end 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 NYU Classes.

<u>Assignment</u>	<u>Session</u>	<u>Due Date</u>
Problem Set #1	3	Tues., Oct. 20
Case: Baker Adhesives	4	Tues., Oct. 27
Problem Set #2	5	Tues., Nov. 3
Quiz	6	Tues., Nov. 10
Case: Carrefour	7	Tues., Nov. 17
Problem Set #3	9	Tues., Dec. 1
Problem Set #4	11	Tues., Dec. 15
Case: AIFS	12	Tues., Dec. 22
Final Examination	12	Tues., Dec. 22