ECNG251: International Finance
Syllabus

Jean-Philippe Stijns

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1 Introduction

1.1 From the official course description

Credit 4 Semester Hours.

Description This course introduces students to International Finance and equips them with tools and methods to study and analyze international economic issues and problems. Topics include: the foreign exchange market, balance of payments, international investment and banking, monetary and fiscal policy in an open economy, economic integration and monetary unification, the international monetary system, and optimum currency areas. Each student is required to write a short paper on a current problem in international finance. Prerequisites: None.

1.2 The instructor's own description

Traditionally the subject of international economics has been divided and taught in two parts. International Trade deals with flows of goods and services whereas International Finance deals with flows of capital. This distinction is somewhat arbitrary and recent advances in International Finance typically cross this line under the header of International Macroeconomics. In this class, however, we will stick to the subject matter as traditionally defined. The main reason behind this is that International Macroeconomics while highly interesting is typically more theoretical a subject and somewhat less "applied" in nature than International Finance. Indeed, the purpose of this class is to be applied and real-world issues oriented. To this end, a textbook with a stronger business orientation than your typical International Finance textbook has been chosen and it will be complemented by a course pack with more applied / policy-oriented papers.

1.3 Prerequisites

To many of the students, this will be their first exposure to Int'l Finance. This raises the question of prerequisites. The short answer is: officially there are no prerequisites. The longer answer is that to feel comfortable in this class having taken a class in undergraduate macroeconomics and / or international economics would be helpful but not to the point of being mandatory. The material in this class will be relatively self-contained. However, if you are behind the curve in terms of basic undergraduate economics preparation, it is your responsibility to make up for the basic knowledge of economics that will be assumed throughout this class. It is unfortunately not possible to slow down the class to the point of being accessible to anyone without any economics background. If such is your case, you are highly encouraged to seek advice from me as to how best to cope with this requirement.

1.4 Objectives of this class

After taking this class, you should have a good understanding of the main analytical tools and policy issues in International Finance. The objective is not to make an int'l macroeconomic theory guru out of you. If you were to pursue International Finance as an academic interest, you will probably need to take additional, more modeling and theory oriented classes. If you have such interest, please do not hesitate to discuss the matter with me outside of class. Neither is designed to prepare you for working in the financial service sector. However, you *will* learn concepts that are useful when interviewing with or working in an investment bank, say (realistically, with about the same credibility as someone who having taken an IO class can make a claim to being able to become a management consultant).

After taking this class you should have a good idea about what is at stakes in the general and in financial press when it concerns International Finance. For example, you should be able to frame and put in context discussions regarding the evolution of this or that exchange rate. You should have an understanding and be able to form some informed opinion when some currency crisis occur. You should comprehend what is at stake when this or that country is deciding whether to join a currency union, such as the Euro-zone. You should also be able to discuss the basic kind of derivatives used to speculate or hedge risk on the foreign exchange market.

1.5 Structure of this class

To help you meet these objectives, this class is structured in two parts:

1. We will spend the first two thirds of the course, up to the midterm, building the conceptual framework needed to understand both flexible and fixed exchange rate regimes. This part of this course may be part review to some of you, but that cannot hurt since education experts often say that repetition is the art of education.

2. In the second half of the class, following the midterm examination, we will finish off building our conceptual toolbox and apply it to questions

such as currency unions, the fixed vs. flexible exchange rate debate, and economic development and transition.

2 Administrative

2.1 Contact information

Instructor Jean-Philippe Stijns.

Mailing address 301 Lake Hall.

Phone (617)373-8427.

Email j.stijns@neu.edu.

Blackboard I will use Blackboard to communicate with you throughout this class. For example, I will use Blackboard to post assignments (homeworks etc.) as well as the corresponding answer keys. Also, I will use Blackboard's email feature to broadcast announcements. Please make sure to update your default email in Blackboard to an account you check regularly. Link to Blackboard: http://blackboard.neu.edu/

2.2 Office Hours

Office 321 Lake Hall.

Office Hours Mondays 1:30 to 2:30, Thursdays 1:30 to 3:30, and by appointment.

Note I realize that my office hours will never be able to meet everyone's tight work or study schedule. That is why I offer to hold office hours by appointment outside of these official times. I do honor this commitment and I always end up being rather generous with my time. However, I ask that you make an appointment before coming to my office, and I request at least 24 hours notice. The reason is that I am on tenure track and, as such, my academic responsibilities entail more than teaching: I need to publish regularly in scholarly journals. Further, when I prepare for class, to do a good job, I need to be able to concentrate. Obviously, being regularly interrupted does not quite help concentration. Please be considerate of this and keep in mind that I have about several dozens students to teach this Spring semester. What may sound like a reasonable time commitment on an individual basis can quickly become unmanageable when multiplied by many students.

2.3 Lectures

Place 178F West Village

Time Tue/Th: 4-5:30 p.m.

2.4 Grading

2.4.1 Student assessments

- There will be homeworks.
- There will be one midterm and a final exam. The final exam is *comprehensive*.
- Students are offered the opportunity to submit a review of Martin Wolf's (2005) book. The basic idea behind a book review is to offer a prospective reader advice as to whether it is worth reading a book. Any format you elect that achieves this goal is fine. Typically, a book review contains an introduction summarizing the book's topic, a section breaking down the book's structure and content, and a conclusion expressing praise and/or criticism towards the book. *This assignment is optional*. Sources of inspiration for book review format include the *New York Times* and the *Journal of Economic Literature*. Also, the English Department offers a Writing Center (http://www.owl.neu.edu/). They have office hours and their tutors can help at every stage of the process of writing your book review. Note that you are asked to write a piece of literature. You are, however, expected to write your book review in grammatically and semantically correct English.
- I observe a zero tolerance policy towards plagiarism in accordance with Northeastern's and the Department of Economics' rules. You must quote every bit of text you take from another author and cite other authors if you use their ideas (within the text and adding the corresponding reference to your reference section.)

2.4.2 Approximate and tentative weights

- Homeworks: 10%;
- Midterm: 25%;
- Presentation: 25%;
- Final: 40%.

Note i These weights are indicative, the instructor reserves the prerogative to adjust them as the class evolves and feedback is received.

Note ii The optional assignment, *i.e.* the book review, only affects the student's grade at the very end when letter grades are assigned. The grade received for the book review is used to decide whether a student should receive, *e.g.* a B+ or an A-. Only a good book review can make a difference to a student's letter grade. Simply completing the formal requirement of the book review is not enough to get a half letter grade advantage. However, a truly excellent book review has the potential to raise a student's grade by as much as a full letter grade.

Note iii If you are to miss the midterm or the final, you will be offered a chance to make up for it under the form of an *oral* exam.

3 Course material

3.1 Main texts

- **Shapiro, Alan C.** *Multinational Financial Management 8/e*, 2006, John Wiley & Sons. ISBN 0471737690. *Note: you are required to purchase this textbook (new or used).* — Intermediary

- **Wolf, Martin** *Why Globalization Works 2/e*, 2005, Yale University Press. ISBN 0300107773. *Note: you are encouraged but not required to purchase this book.* — Non-technical

- **Shapiro, Alan C.** *Multinational Financial Management - Study Guide 4/e*, 2006, John Wiley & Sons. ISBN 0471404403. *Note: purchasing this study guide is entirely optional.* — Intermediary

- **Yours truly** *ECNG251 Course Pack*, This reader will be available by September 15 from Gnomon Copy (Phone: 617-536-4600). *Note: you are required to purchase this course pack; they wouldn't put it together for 12 students otherwise and there are obvious copyright issues...* — Intermediary/Advanced

The textbook, study guide and the book for the optional review are all available from the campus store. The Northeastern University Bookstore is located on the lower level of Ell Hall (adjacent to the Curry Student Center). Their phone number is 617-373-2286.

4 Student responsibilities

Attend ALL classes (except for strictly serious reasons, of course.) Roll will not be taken but you are upon the honor code expected to play your part in this "community of learning." If you think you might need some understanding from me at any point during the semester, you will want to show up in class. Besides, you are now in graduate school, and your work ethics should be the same as what it would be in a high responsibility job.

Prepare for class This means that you are expected to come to class having read *all* the assigned reading before class meets. In other words, reading happens before coming to class, not after. Class serves to structure, discuss and summarize the material. It is a complement, not a substitute to reading the material. I have purposely limited the amount of reading to make it manageable. Typically, you are asked to read one textbook chapter per week.

Stay on top of the news especially as they relate to International Finance. This is something you can expect to be tested on, possibly on the homeworks, the midterm and on the final. You are *required* to subscribe to a financial newspaper for the duration of the class. To follow International Finance news, the Wall Street Journal is your best option. The Financial Times is a quality alternative. In complement, you can read The Economist (HB1.E5350).

Enough warnings and rules, enjoy this class! International Finance is a fascinating topic, always affected by current events and full of policy implications. Welcome to those of you who are new to Northeastern University or to the Department of Economics! And welcome back to the rest of you!