

COURSE OUTLINE:

INTERNATIONAL FINANCE

Ph.D. & Master course | Humboldt-University Berlin | Winter 2013

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Overview

This course develops core models of international finance, and surveys selected topics in international financial markets; exchange rates and purchasing power parity; international CAPM; equity and bond home biases; determinants of capital flows; sovereign debt crisis; speculative attacks and financial crises; contagion and financial linkages; exchange rate regimes and monetary policy choices; and the stability of the international financial system.

The goal is to provide a thorough foundation of the key concepts in international finance, with some of the topics also touching upon international macroeconomics and trade, while others are more finance focused. A closely related intention of the course is to give the students a good idea of the current frontier of research in selected areas of international finance, and thus ultimately to prepare them to do original work. The course assumes that students have taken the first-year macro, micro and econometrics sequences.

Requirements and grades

Students will be assessed on the basis of three elements; first, an essay/brief term paper (30%) and presentation thereof (20%) addressing a specific question/paper in an area of choice; second, an empirical exercise with data using an econometric software (50%).

Reading list

An updated and more detailed reading list, distinguishing between core/required readings (*) and additional readings, will be provided at the beginning of the course. Students are expected to have at least browsed through the required readings before class.

Time and location

Generally Fridays from 14.00 – 16.00 at DIW Berlin, Mohrenstrasse 58. Some exceptions may apply and will be communicated well ahead of time.

Outline and Schedule

I. Exchange rate economics

- * Sarno, L. and M.P. Taylor. 2012. *The Economics of Exchange Rates*, Cambridge and New York: Cambridge University Press; chapters 2, 3, 4, 7.
- * Hallwood, C.P. and R. MacDonald. 2004. *International Money and Finance*, Blackwell Publishing, 3rd edition; chapters 7-13.

1. Empirical Models of Nominal Exchange Rates

- * Mark, N. 1995. Exchange Rates and Fundamentals: Evidence on long-horizon predictability. *American Economic Review* 85: 201-218.
- * Frankel, J. and Rose, A. (1995), "Empirical Research on Nominal Exchange Rates," in Grossman, G.M. and Rogoff, K.H. (eds.), *Handbook of International Economics*, Vol. 3, Amsterdam, New York and Oxford: Elsevier, North-Holland.

2. Long Run Real Exchange Rates, Terms of Trade and Expenditure Switching.

- * Imbs J, H. Mumtaz, M. Ravn and H. Rey, "PPP Strikes Back: Aggregation and the Real Exchange Rate", *QJE* 2010

3. Microstructure Models of FX Markets

- * Evans, M.D.D. and Lyons, R.K. (2002), "Order Flow and Exchange Rate Dynamics," *Journal of Political Economy*, 110(1), pp. 170-180.
- * Evans, M.D.D. and Lyons, R.K. (2003), "How is Macro News Transmitted to Exchange Rates?", NBER Working Paper No. 9433.

II. International financial markets & integration

4. Capital Flows

- * K. Forbes, M. Fratzscher, T. Kostka and R. Straub, 2012. Bubble Thy Neighbor: Portfolio Effects and Externalities from Capital Controls, NBER Working Paper No. 18052.
- * Fratzscher, M., 2012. Capital Flows, Push versus Pull Factors and the Global Financial Crisis, *Journal of International Economics*, 88(2), 341-356, June 2012.

5. Risk Sharing and International Financial Markets

- * Imbs, J. 2006. Real effect of financial integration. *Journal of International Economics* (also available via J. Imbs' homepage)
- * Fratzscher, M. and J. Imbs, 2009. Risk sharing, finance and institutions in international portfolios, *Journal of Financial Economics* 94: 428-447.

6. International portfolio diversification in theory and practice

- * Imbs, J. "The real effects of financial integration", CEPR Discussion Paper 4335.

7. Equity and Bond Home Bias, and International CAPM

- * Lewis K., "International Home Bias in International Finance and Business Cycles", *Journal of Economic Literature* 37, June 1999, 571-608.

- * Obstfeld M. and K. Rogoff, "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?", NBER Macro Annual 2000, also NBER working paper 7777.

8. Financial and Currency Crises in Open Economies

- * Kaminsky, G. and C. Reinhart, "The Twin Crises: the causes of banking and balance of payments problems." AER 89, 1999, 473-500
- * G. Bekaert, M. Ehrmann, M. Fratzscher and A. Mehl, 2013. "Global crises and equity market contagion," NBER Working Paper No. 17121, Journal of Finance.

9. Global Imbalances and Financial Integration

- * Blanchard O. and F. Giavazzi: "Current Account Deficits in the Euro Area. The End of the Feldstein Horioka Puzzle?", Brookings Papers on Economic Activity, Fall 2002.
- * Ehrmann, M., M. Fratzscher, R. Gürkaynak and E. Swanson, 2011. Convergence and anchoring of yield curves in the euro area, Review of Economics and Statistics February 2011, 93(1): 350–364, Feb 2011.

10. Exchange rate regimes and monetary policy choices

- * Calvo, G. and C. Reinhard (2002): "Fear of floating", Quarterly Journal of Economics 117(2), 379-407.