

This course is designed to introduce students to Global financial markets with an emphasis on the European dimension. Students will learn about various international financial markets such as the foreign exchange market, the Eurocurrency market and Eurobond market. In addition, students will study a range of financial instruments such as bills and bonds, options, forwards and futures. The course will also cover topical issues such as European Monetary Union.

The main texts to be used on this course are:

Keith Pilbeam (2005), Finance and Financial Markets (F&FM), Palgrave Macmillan.
Keith Pilbeam (2006), International Finance (IF), Palgrave Macmillan.
Ian Giddy (1994), Global Financial Markets, D C Heath.

COURSE REQUIREMENTS: STUDENTS WHO ARE ON THE COURSE MUST BRING WITH THEM TO EVERY SESSION THE FOLLOWING:

1. A calculator
2. A copy of that day's Financial Times (supplied by Boston University).
3. Students will also benefit from reading the Economist magazine (weekly).

ASSESSMENT

The assessment on this course is made up of three factors (weighting in brackets):

- 1) Attendance plus Internet Project report. (10%)
- 2) Take home coursework – 5 short answers of about 1 side each or (about 300 words) set at the fourth session of the course and the research for which is to be worked on during the first two Wednesdays of the course. (40%)
- 3) Final exam - of 1 hr 45 minutes, 50 question MCQ paper answer test 2 marks each. The test covers the whole of the course with slightly more emphasis placed on the second part of the course. (50%)

GRADING SCALE

The following scale will be applied:

A = 90+, A- = 85-89, B+ = 80-84, B = 75-79, B- = 70-74,
C+ = 65-69, C=60-64, C-=55-59, D = 50-54, F less than 50.

Course Timings

24 June Final Exam 10.00 – 11.45 (Boston Room)

SESSION 1: INTRODUCTION TO THE FOREIGN EXCHANGE MARKET

- 1.1 Introduction
- 1.2 Exchange Rate Definitions
- 1.3 Characteristics and Participants of the Foreign Exchange Market
- 1.4 Arbitrage in the Foreign Exchange Market
- 1.5 The Spot and Forward Exchange Rates
- 1.6 Nominal, Real and Effective Exchange Rates
- 1.7 A Simple Model of the Determination of the Spot Exchange Rate

SESSION 2: FORWARD EXCHANGE RATES AND COVERED INTEREST PARITY

- 2.1 Covered Interest Parity
- 2.2 The Determination of the Forward Exchange Rate
- 2.3 Hedging using the forward exchange rate
- 2.4 Speculating using the forward exchange rate
- 2.5 The Interaction of Hedgers, Arbitrageurs and Speculator

Main Reading Sessions 1 and 2:

Pilbeam (F&FM) chapter 11

Pilbeam (IF) chapter 1

Supplementary: Giddy chapter 2 p.13-38

SESSION 3: PURCHASING POWER PARITY AND UNCOVERED INTEREST PARITY

- 3.1 Introduction
- 3.2 Purchasing Power Parity Theory and the Law of One Price
- 3.3 Absolute and Relative PPP
- 3.4 A Generalised Version of PPP
- 3.5 Measurement Problems in Testing for PPP
- 3.6 Empirical Evidence on PPP
- 3.7 Summary of Empirical Evidence on PPP
- 3.8 Explaining the Poor Performance of Purchasing Power Parity Theory
- 3.9 Uncovered Interest Parity
- 3.10 Conclusions

Main Reading:

Pilbeam (F&FM) chapter 12 pp.300-313

Pilbeam (IF) chapter 6, Chapter 7 p.147-51

Supplementary: Giddy chapter 5

SESSION 4: EUROPEAN MONETARY UNION

- 4.1 Introduction
- 4.2 What is meant by Monetary Union ?
- 4.3 Benefits of European Monetary Union
- 4.4 Costs of European Monetary Union
- 4.5 A Brief History of European Monetary Union
- 4.6 The Maastricht Treaty and Convergence Criteria
- 4.7 The Growth and Stability Pact
- 4.8 The Euro as a currency
- 4.9 The Euro and the UK
- 4.10 The Euro and the new EU members
- 4.11 Conclusions

Main Reading:

Pilbeam (IF) chapter 16 – Note International Finance Text!

By INTERNET PROJECT.I EXPECT YOU TO REVIEW 5 FINANCE SITES ON THE WEB TELLING ME WHAT YOU LIKE ABOUT THE SITES AND DISLIKE ABOUT THEM. APPROXIMATELY 150 WORDS PER SITE.

SESSION 5: THE INTERNATIONAL MONEY MARKET

- 5.1 Introduction
- 5.2 The Origins and Development of the Euromarkets
- 5.3 The Characteristics of the Eurodollar Market
- 5.4 The Creation of Eurodeposits
- 5.5 Euromarkets and Currency and Country Risks
- 5.6 Euromarkets and Government Regulation and Policy
- 5.7 Conclusions

Main Reading:

Pilbeam (F&FM) chapter 5

Pilbeam (IF) chapter 12

Supplementary: Giddy chapters 3 and 10

SESSION 6 : THE INTERNATIONAL BOND MARKET

- 6.1 Difference between bills and bonds
- 6.2 The term structure of interest rates
- 6.3 Yield curves
- 6.4 Theories of the Yield curve
- 6.5 Domestic bonds, Eurobonds and Foreign Bonds
- 6.6 Importance and diversity of the market
- 6.7 Structure of Market
- 6.8 A Eurobond issue
- 6.9 Factors Segmenting Domestic and Eurobond markets
- 6.10 Regulation and Taxation

Main Reading:

Pilbeam (F&FM) chapter 6

Pilbeam (IF) chapter 12

Supplementary: Giddy chapter 12

SESSION 7: FORWARD/ FUTURES MARKETS

- 7.1 Forward contracts
- 7.2 Hedging, Speculation and Arbitrage
- 7.3 Covered Interest Parity and Forward Pricing
- 7.4 Currency Futures
- 7.5 Stock Index Futures
- 7.6 Interest rate futures

Main Reading:

Pilbeam (F&FM)chapter 13

Supplementary: Giddy chapter 12

SESSION 8 OPTIONS THE BASICS

- 8.1 Call and Put Options
- 8.2 The over the counter market
- 8.3 Exchange Traded currency options.
- 8.4 European and American Options
- 8.5 Put and call options
- 8.6.1 Options on individual stocks
- 8.7 The intuition behind option pricing.

Main Reading:

Pilbeam (F&FM) chapter 14

Supplementary:Giddy chapter 8

FINAL EXAMINATION

TERMS AND CONDITIONS

****Attendance at all classes is mandatory.** Students missing lectures without a doctor's letter or authorisation from the Director or from the Placements' Team will automatically be docked a – or a + from their final grade. Persistent lateness will also be penalised in the final grade. A register of attendance will be taken at the beginning of each session, and marks will be awarded for attendance. Absence can be conveyed by advising a senior member of staff in the Academic Affairs Office with a request that the information be passed on to me. Leaving it to another class member to convey messages will not be acceptable. Appointments for interviews for internships should not conflict with attendance at classes.

Any student who is unable to attend a class, or take part in an assignment because of religious reasons, must give notice of the fact in advance. He/she will be required

to make up for time lost. In this situation arrangements must be made with another student for class notes to be shared. Course work must be delivered before agreed deadline, failure to hand in on time will result in deducted marks.

I will make some time available in each session for students to raise questions etc. Should students wish to discuss matters with me in person I will also be available during the break mid-lecture.

GRADING SYSTEM NOTES

"Incomplete" or I grades are not permitted to be issued by faculty, because of the obvious difficulty in making up missed work once the student has left the country. All work must be completed on time. The grades reflect the quality of the work.

It is also important to realise that grades below C may not be transferable to non BU students' home institutions. Lecturers and students should use the following criteria for an understanding of what each grade means.

"Withdrawn" The Boston University Provost has announced that faculty members may no longer assign grades of "W" (Withdrawn). In supporting this policy, the Registrar's Office will no longer assign W grades on individual students' official Boston University records, even if the grade sheet has a "W" recorded for a student. Alternative grades to "W" are "F" (Failing) or "MG" (Missing Grade).

GRADING CRITERIA

A This exceptional grade is assigned only to work that has persistently outstanding quality in both substance and presentation. The student must demonstrate a sustained capacity for independent thought and extensive study, producing rigorous and convincing analyses in well-ordered prose.

A- Awarded to work that is clearly focused and analytical, and based on wide reading. The student must cover all the principal points of a question and systematically develop a persuasive overall thesis, allowing for one or two venial omissions or inapt expressions.

B+, B, B- This range of grades indicates that the student has shown some evidence of original thought and intellectual initiative. The student has cited sources beyond the class materials, and shown a degree of originality in perception and/or approach to the subject. The work will show thoughtful management of material, and a good grasp of the issues. The differences between a B+, a straight B and a B- may reflect poor presentation of the material, or mistakes in punctuation, spelling and grammar.

C+, C, C- Work in this grade range is satisfactory, but uninspiring. If the work is simply a recitation of the class materials or discussions, and shows no sign of genuine intellectual engagement with the issues, it cannot deserve a higher grade. Should an essay fail to provide a clear answer to the question as set, or argue a position coherently, the grade will fall within this range. Quality of presentation can lift such work into the upper levels of this grade range. Work of this quality which is poorly presented, and riddled with errors in grammar, spelling and punctuation, will fall into the lower end of the range. To earn a C grade, the work must demonstrate that the student is familiar with the primary course material, be written well enough to be readily understood, be relevant to the assignment, and, of course, be the student's own work except where properly cited.

D A marginal pass can be given where some but not all the elements of the course have been completed satisfactorily.

F The failing grade indicates the work is seriously flawed in one or more ways:

- *Obvious lack of familiarity with the material
- *So poorly written as to defy understanding
- *So brief and insubstantial that it fails to properly address the subject
- *Material presented is not relevant to the assignment
- *Demonstrates evidence of plagiarism

PLAGIARISM

Simply stated, plagiarism is taking another's work and presenting it as your own. Dictionary definitions of plagiarism frequently include terms such as theft or steal. Plagiarism is, in fact, intellectual theft. It is one of the most serious forms of academic misconduct. Plagiarism committed by a student will certainly result in course failure and may result in suspension or dismissal. In the professional world it can ruin a career.

Boston University's Code of Student Responsibilities states:

All students are responsible for having read the Boston University statement on plagiarism, which is available in the Academic Conduct Code. Students are advised that the penalty against students on a Boston University program for cheating on examinations or for plagiarism may be "expulsion from the program or the University or such other penalty as may be recommended by the Committee on Student Academic Conduct, subject to approval by the dean."

The value of any grade, credit, honour or degree received by a student presupposes that all work submitted by a student is his or her own. A student who uses or relies upon the work of others or who, except under conditions expressly permitted by the instructor, furnishes assistance to another student, violates the standards of the University. Students must insist upon academic honesty and integrity from their fellow students and must report promptly any case of alleged violation of academic conduct. Failure to do so is a violation of this code.

Plagiarism can take many forms, including the reproduction of published material without acknowledgement, or representing work done by others as your own. This includes the increasingly common practice of purchasing and downloading work from Internet "paper mills." Students should be extremely careful when submitting work for this course that all work is correctly sourced. Print-outs of web sites that have been used in research may be required by the lecturer in cases of a grade dispute and all web site based reference material should be kept by the student until after the end of the semester.