

Issues in International Finance for Managers

Area: Economics Area and Finance & Accounting Area

Instructor: Sanket Mohapatra

Course credits: 1.0 credits (20 sessions)

Introduction & Objective

This course aims to provide future managers an overview of topical issues in international finance and open-economy macroeconomics. The course will start with a review of balance of payments, the IS-LM-BP open-economy model, and exchange rate systems. It will then go on to discuss interest rate parity conditions, purchasing power parity (PPP) and real exchange rate determination. Taking a broader perspective, the course will then review the history of the international monetary system, global financial cycles and international capital flows, spillovers of conventional and unconventional monetary policies across borders, managing volatile capital flows, the “trilemma” and “quadrilemma” for policymakers in an open economy, and financial crises in emerging and advanced economies. The course will also cover international diversification and international asset pricing models, country and political risk in international investments, international debt and equity financing by firms, and managing exchange rate risk.

Course participants would gain an understanding of financial globalization, functioning of international financial markets, and the opportunities and risks of cross-border investments. It will emphasize the use of theory, analytical tools, and research to better equip future managers in interpreting and responding to the implications of global economic and financial events for corporations, governments, and households.

Pedagogy: Lectures, class discussions, group project and presentation, and quizzes and assignments.

Evaluation Scheme:

Group project and presentation	35%
Quizzes and assignments*	30%
Reflection notes**	20%
Class participation	15%

*The component on quizzes and assignments can be substituted with an individual paper with prior permission of the instructor.

** Reflection notes for selected sessions will be based mainly on the material covered and discussed in class.

Course Books/Reference Materials:

The main references are selected chapters from *International Finance*, by Paul Krugman, Maurice Obstfeld and Marc Melitz (KOM), 10th edition; and *International Financial Management*, by Geert Bekaert and Robert J. Hodrick (BH), 2nd edition. Readings will include research articles on specific topics (see Session Plan). Other related readings will be assigned during the course as needed.

Session Plan:

Session 1	Review of concepts: balance of payments in national income accounting framework, the IS-LM-BP model <u>Readings:</u> Chapters 2 and 4 of KOM
Sessions 2-3	Determination of exchange rates in short term (uncovered and covered interest rate parity conditions), purchasing power parity (PPP) and real exchange rate determination in the long run <u>Readings:</u> Chapters 6 and 7 of BH
Session 4	International monetary system, exchange rate regimes <u>Readings:</u> Chapter 8 of KOM; Chapter 5 of BH
Sessions 5-6	International financial flows; integration of emerging economies into international debt (banking and bond) markets and equity markets. <u>Readings:</u> Forbes, K, and F. Warnock (2012) “Capital Flow Waves: Surges, Stops, Flight and Retrenchment,” <i>Journal of International Economics</i> , vol. 88(2): 235-251. Bakaert, G., and C.R.Harvey (2014) “Emerging Equity Markets in a Globalizing World”, manuscript, Columbia University. Didier, T. and S.L. Schmukler (2014) “Debt Markets in Emerging Economies: Major Trends.” <i>Comparative Economic Studies</i> , vol. 56, 200-228. <u>Optional:</u> Tillman, P. (2013) “Capital Inflows and Asset Prices: Evidence from Emerging Asia.” <i>Journal of Banking and Finance</i> , vol. 37, 717-729.
Session 7-8	Spillovers of conventional and unconventional monetary policies (UMP) across borders through financial channels <u>Readings:</u>

	<p>Azis, I.J, and H.S.Shin (2015) “Three Phases of Global Liquidity”, Chapter in I.J.Azis and H.S. Shin (eds) <i>Managing Elevated Liquidity</i>.</p> <p>Fratzscher, M, M. Lo Duca and R. Straub (2013), “On the International Spillovers of US Quantitative Easing”, Working Paper 1557, European Central Bank.</p> <p><u>Optional:</u></p> <p>Rajan, R. (2013) “A Step in the Dark: Unconventional Monetary Policy after the Crisis”, Andre Crockett Memorial Lecture, Bank for International Settlements.</p> <p>Roubini, N. 2015. “Emerging Markets After the Fed Rate Hike” <i>Project Syndicate</i>, June 29, 2015</p>
Sessions 9-10	<p>Financial crises and reforms in emerging and advanced economies</p> <p><u>Readings:</u></p> <p>Chapters 9 and 11 of KOM</p> <p>Reinhart, C. and K. Rogoff (2014) “This Time is Different: A Panoramic View of Eight Centuries of Financial Crises”, <i>Annals of Economics and Finance</i>, vol. 15(2), 1065-1188</p> <p>Gourinchas, P., and M. Obstfeld (2012). “Stories of the Twentieth Century for the Twenty-First”, <i>American Economic Journal: Macroeconomics</i>, 4(1): 226-65.</p> <p><u>Optional:</u></p> <p>Bordo, M., C.M.Meissner, and D. Stuckler (2010) “Foreign currency debt, financial crises and economic growth: A long-run view”, <i>Journal of International Money and Finance</i>, vol. 29, 642–665</p> <p>Eichengreen, B, N. Jung, S. Moch, and A. Mody (2014) “The Eurozone Crisis: Phoenix Miracle or Lost Decade”, <i>Journal of Macroeconomics</i>, vol. 39, 288-308.</p>
Session 11	<p>Managing volatile capital flows</p> <p><u>Readings:</u></p> <p>Aizenman, J. (2011), “The Impossible Trinity—from the Policy Trilemma to the Policy Quadrilemma,” manuscript, University of California, Santa Cruz.</p> <p><u>Optional:</u></p> <p>Aizenman, J., Y. Jinjark, and D. Park (2011) “International Reserves and Swap lines: Substitutes or Complements?” <i>International Review of Economics and Finance</i>, vol. 20(1), 5-18.</p> <p>Forbes,K., M. Fratzscher and R. Straub (2015)“Capital Controls and Macprudential Measures: What are They Good For?” <i>Journal of</i></p>

	<i>International Economics</i> , vol. 96, 76-97.
Sessions 12-13	<p>International diversification and world asset pricing model, home bias in investment, country and political risk in foreign investment</p> <p><u>Readings:</u></p> <p>Chapters 13 and 14 of BH</p> <p><u>Optional:</u></p> <p>Busse, M., and C. Hefeker (2007) “Political Risk, Institutions and Foreign direct investment”, <i>European Journal of Political Economy</i>, Vol. 23(2), 397–415</p>
Session 14	<p>International debt and equity financing by firms (cross-listings, ADRs, GDRs, international bonds, local currency bonds), cross-border syndicated bank lending.</p> <p><u>Readings:</u></p> <p>Chapters 11 and 12 of BH</p> <p>Didier, T., and S.L. Schmukler (2013). “The Financing and Growth of Firms in China and India: Evidence from Capital Markets”, <i>Journal of International Money and Finance</i>, vol. 39(C), 111-137.</p> <p><u>Optional:</u></p> <p>Gozzi, J.C, R. Levine and S. Schmuker (2010) “Patterns of International Capital Raisings”, <i>Journal of International Economics</i>, vol. 80, 45-57.</p>
Session 15	<p>Managing exchange rate risks</p> <p><u>Readings:</u></p> <p>Chapter 3 and 9 of BH</p>
Session 16-17	<p>Commodities super-cycle; Sovereign wealth funds; Outward investment by emerging market firms</p> <p><u>Readings:</u></p> <p>Erten, B, and J.A.Ocampo (2013), “Super Cycles of Commodity Prices Since the Mid-Nineteenth Century”, <i>World Development</i>, vol. 44, 14-30.</p> <p>Bernstein, S., J. Lerner, & A. Schoar (2013). “The Investment Strategies of Sovereign Wealth Funds.” <i>The Journal of Economic Perspectives</i>, 219-237.</p> <p>Chen, W., D. Dollar and H. Tang (2015), “Why is China Investing in Africa: Evidence from the Firm Level” (http://www.brookings.edu/research/papers/2015/08/why-is-china-investing-in-africa)</p>
Sessions 18-20	Group project presentations

Pre-requisites & Eligibility: No pre-requisite other than completion of PGP-1 compulsory courses

Additional Resources

Session 2-3

Chapter 5 of KOM

Session 4

Chapter 8 of BH

Session 5-6

Obstfeld, M. (2009) “International Finance and Growth in Developing Countries: What Have We Learned?” *IMF Staff Papers*, Vol. 56(1).

Broner, F., A. Erce, A. Martin, and J. Ventura (2014) “Sovereign debt markets in turbulent times: Creditor discrimination and crowding-out effects”, *Journal of Monetary Economics* 61, 114-142.

Session 7-8

Rai, V., and L. Suchanek (2014) “The Effect of the Federal Reserve’s Tapering Announcements on Emerging Markets.” Bank of Canada Working Paper 2014-50.

Session 9-10

Krugman (2014) “Currency Regimes, Capital Flows and Crises”, *IMF Economic Review*, Vol. 62, Issue 4, pp. 470-493.

I. Patnaik, A. Shah, N.Singh (2014) “Foreign Investors Under Stress: Evidence from India”, *International Finance*, 16(2), 213-244.

Session 11:

Rey, H. (2015) “Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence”, NBER Working Paper No. 21162.

Engel, C. (2015) “Macroprudential Policy in a World of High Capital Mobility: Policy Implications from an Academic Perspective.” NBER Working Paper No. 20951

Pandey, R., G. Pasricha, I. Patnaik, and A. Shah (2015) “Motivations for Capital Controls and Their Effectiveness” Bank of Canada Working Paper 2015-5.

Session 12-13:

Bekaert, G., C.R.Harvey, C.T.Lundblad, and S. Siegel (2014). “Political Risk Spreads”, *Journal of International Business Studies*, 45(4), 471-493

Session 14:

Levine, R., and S. Schmuker (2007), “Migration, spillovers, and trade diversion: The impact of internationalization on domestic stock market activity”, *Journal of Banking and Finance*, 31, 1595-1612.

Burger, J.D., F.E. Warnock, and V.C. Warnock (2012) “Emerging Local Currency Bond Issuance.” *Financial Analysts Journal*, vol. 68(4)

Session 15:

Chapters 20 and 21 of BH

Session 16-17:

Financial Times (2015), “Why the Commodities Super-Cycle Was a Myth.” August 31 (www.ft.com)