This class focuses on the international aspects of financial markets and the effects of trends in technology, globalization, and regulation.

Currency exchange rates have a major impact on international transactions and on the environment businesses operate. The class studies the markets for foreign exchange. As the most liquid financial market, there are a variety of derivative contracts available on currencies prices, such as forwards, futures, options and swaps. The class provides in-depth perspectives on these.

For many firms, exchange rates are primarily viewed as risks affecting operational and financial positions that need to be managed. Currency risk management is one of the class’ main focuses.

For investors, currencies as well as international equity and bond markets represent opportunities that complement domestic investments. The class studies currency investment strategies such as carry trades, momentum and fundamental approaches. The class considers the optimal exposures to international stocks and bonds, and the role of currency risks in international portfolios.

Cryptocurrencies are a potentially disruptive new type of financial instrument. The class studies these from a finance perspective.

The target audience includes financial officers, banking, consulting, and investors.

FNCE 219/719 builds on skills acquired in introductory finance, economics and statistics classes. However, some initial review of major concepts used is provided. The class format, for the most part, is lecture-based, with several case discussions. Class assignments are quantitative in nature.

Office hours: Monday 1:30 to 3:00 pm, or by appointment
Webpage: http://finance.wharton.upenn.edu/~jermann/teaching.html (Canvas has a link to the class webpage)
Prerequisites

The following introductory courses are recommended but not required
For 219: FNCE 100, FNCE 101 or ECON 102, STAT 101
For 719: FNCE 611(or 612), 1 cu of Corporate Finance
FNCE 613 or 615, at least 0.5 cu of Macroeconomics

Materials

• A customized book with readings has been prepared for this class by McGraw-Hill, 2017

• 2 chapters from the book International Finance Theory into Practice by Piet Sercu are
  available on Canvas through Study.Net Materials.

• Lecture notes, additional readings, assignments, homework questions and answers, and
  other material will be made available on the class webpage. You may want to print
  lecture notes beforehand and bring them to class.

Course Requirements

• **Mid-term Exams:**
  - Tuesday, October 16, in class
  - Thursday, November 29, in class.

  Each exam counts for 30% of the final grade. Unexcused absences from exams will result
  in a zero score in the calculation of the final grade. Excused absences from exams require
  approval prior to the exam. Exams are closed book, but you may prepare a letter sized
  sheet (8.5 by 11-inch) with your notes (on both sides).

• **Four Group Assignments** count together for 15% of the final grade; the lowest assignment
  score will be dropped. Each student is expected to join a project group consisting of 3-4
  members. The project groups will jointly prepare and submit written assignments. The
  individuals constituting a group must remain the same over the semester. To help reduce
  problems due to free-riding etc., group members will be asked near the end of the term to
  evaluate the participation of the other group members. This confidential evaluation may affect
  the individual grade obtained for the assignments.

  Assignments will be available on the class webpage at least one week before they are due.
  LATE ASSIGNMENTS WILL NOT BE ACCEPTED. The written assignments will be
  discussed in class and answers will not be distributed.

• **Four Individual Assignments** count for 15% of the final grade. Individual assignments contain
  questions and problems that students work out and hand in individually.
• **Class participation**, 10% of the final grade. Particularly during the discussion of assignments, you are expected to actively participate through comments and questions.

**Re-grading exams and graded assignments**
Any request for re-grading must be submitted in writing within two weeks from the date the exams or assignments have been returned. The exam or assignment should be placed in my mailbox in the Finance Department or given to me in class.

**Homework problem sets**
Several problem sets will be assigned during the semester and you will be given the answers to these. The purpose of these exercises is to give you the opportunity to make sure you fully understand topics covered in class. By regularly doing these exercises you get training for exams and assignments and you will maximize your return from this class. These problem sets will not be graded, and you should feel free to work in groups.
Course Outline

Each of the following numbered topics covers approximately one week of classes.

FX basics
1. Introduction: Derivative usage
2. Spot Foreign Exchange Markets
   Manipulating exchange rates, FX market structure, arbitrage
3. LIBOR, Forward Contracts and Interest Rate Parity
   Forward valuation, hedging with forwards, Non-deliverable Forwards

Derivatives
4. Currency Futures: Futures markets, hedging and speculating with futures
5. Currency Options
   Put-call parity, hedging with options, option pricing issues, Black-Scholes model, implied volatility, risk reversal
6. Currency and Interest Rate Swaps
   Examples and motivations for swaps, swap valuation, counterparty credit risk

International asset allocation / Exchange rate theories
7. Exchange Rate Theories and Evidence: Purchasing Power Parity, Balance of Payments
8. Trading and Risk Premia in Foreign Exchange Markets
   Uncovered interest parity, carry trade, value, momentum
10. International Bond Portfolios: Bond markets, hedging FX risk
11. Cryptocurrencies: Bitcoin, investing in cryptocurrencies

Several current event topics are covered at various points in the semester.
Calendar

Tue, Aug 28
Thu, Aug 30
Tue, Sept 4
Thu, Sept 6
Tue, Sept 11
Thu, Sept 13  Individual Assignment #1 discussed. Assignments are due by 3pm the day before
Tue, Sept 18  Group Assignment #1 discussed
Thu, Sept 20
Tue, Sept 25
Thu, Sept 27  Individual Assignment #2 discussed
Tue, Oct 2
Thu, Oct 4  No Class: Fall Break
Tue, Oct 9
Thu, Oct 11  Group Assignment #2 discussed
Tue, Oct 16  Mid-term Exam 1 — in class
Thu, Oct 23
Tue, Oct 25
Tue, Oct 30
Thu, Nov 1  Individual Assignment #3 discussed
Tue, Nov 6
Thu, Nov 8
Tue, Nov 13  Group Assignment #3 discussed
Thu, Nov 15
Tue, Nov 20  Individual Assignment #4 discussed
Thu, Nov 22  No Class: Thanksgiving
Tue, Nov 27
Thu, Nov 29  Mid-term Exam 2 — in class
Tue, Dec 4
Thu, Dec 6  Group Assignment #4 discussed

The class webpage will include a more detailed schedule.