

Proposed Course Outline for International Finance (PhD course)

Duration: 6 weeks (intensive) – 2 lectures per week

Instructor: Dr Eliza Wu

Overview and Objectives: This course aims to provide students with an understanding of the key concepts in international finance and to introduce PhD level students to empirical research in this field by surveying some key research topics. This course will begin with an introduction to exchange rate economics before examining the empirical evidence on exchange rate behaviour and methods to assess foreign exchange exposure. Next, the course examines how currency risks present different models for pricing international assets and the implications from financial market integration. Following this, students are exposed to the issues relating to international investments and the observed deviations from theoretical predictions and lastly, the dynamics of international financial markets.

Topic schedule:

I. Exchange Rates

Exchange rate theories and empirical evidence

Mark, N. 1995. Exchange Rates and Fundamentals: Evidence on long-horizon predictability. *American Economic Review* 85, 201-218.

Lucio, S., Valente, G. and H. Leon. 2006. Nonlinearity in Deviations from Uncovered Interest Parity: An Explanation of the Forward Bias Puzzle. *Review of Finance*, 10, 443-482.

Foreign exchange exposure

Bartram, S., Brown, G.W., and B. Minton, 2010, Resolving the Exposure Puzzle: The Many Facets of Exchange Rate Exposure, *Journal of Financial Economics*, 95, 148-173.

II. International asset pricing

ICAPM and currency risks

Solnik, B., 1974, An Equilibrium Model of the International Capital Market, *Journal of Economic Theory*, 500-524.

Dumas, B. and B. Solnik, 1995. The world price of foreign exchange risk, *Journal of Finance*, 50, 445-79.

DeSantis, G. and Bruno G., 1998. How Big is the Premium for Currency Risk? *Journal of Financial Economics*, 375-412.

Financial market integration

Barr, D.G., Priestley, R., 2004. Expected returns, risk and the integration of international bond markets. *Journal of International Money and Finance* 23 71-98.

Bekaert, G., Harvey, C.R., 1995. Time-varying world market integration. *Journal of Finance* 50, 403-444.

Bekaert, G., Harvey, C.R., Lundblad C. and S. Siegel, 2007. Global Growth Opportunities and Market Integration, *Journal of Finance*, 62, 1081-1137.

Bekaert, G., Harvey, C.R., Lundblad C. and S. Siegel, 2009. What segments equity markets, working paper, Columbia University.

Kim, S-J., Moshirian, F. and E. Wu, 2005. Dynamic stock market integration driven by the European Monetary Union: An empirical analysis, *Journal of Banking and Finance*, 29, 69-96.

Zhang, B. and E. Wu, 2010, Assessing global market integration through security analyst forecasts, *working paper, The University of New South Wales*.

III. International investments

International portfolio diversification in theory and practice

French, K. and J. Poterba 1991, Investor diversification and international equity markets, *American Economic Review* 81, 222-226

Griffin J. and G. A. Karolyi, 1998. Another Look at the Role of the Industrial Structure of Markets for International Diversification Strategies, *Journal of Financial Economics* 50, 351-373.

Ahearne, A., W. Grier and F. Warnock, 2004, Information costs and home bias: an analysis of U.S. holdings of foreign equity, *Journal of International Economics* 62, 313-336.

Prasad, E., K. Rogoff, S. Wei and M. Kose, 2004. Financial Globalization, Growth and Volatility in Developing Countries, NBER Working Paper 10942.

Equity and Bond Home Bias

Bekaert, G. and X.Wang, 2009. Home bias revisited, working paper, Columbia University.

Chan, K.; Covrig, V.; Ng, L., 2005, What Determines the Domestic Bias and Foreign Bias? Evidence from Mutual Fund Equity Allocations Worldwide, *Journal of Finance*, 60, 1495-1534.

Cooper, I. and E. Kaplanis, 1994, What Explains the Home Bias in Portfolio Investment? *Review of Financial Studies* 7, 45-60.

Ferreira, M. and P. Matos, 2008. The Colours of Investors' Money: the Role of Institutional Investors around the World, *Journal of Financial Economics*, 88, 499-533.

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

International Portfolio Flows

Bekaert G., C. Harvey and C. Lundblad, 2005. Does Financial Liberalization Spur Growth, *Journal of Financial Economics*, 77, 3-56.

Portes, R. and H. Rey 2005. The determinants of cross-border equity flows, *Journal of International Economics* 65, 269-96.

Brennan M. and H. Cao, 1997, International portfolio investment flows, *Journal of Finance* 52, 1851-1880.

Albuquerque, R., N. Loayza and L. Servén 2005, World Market Integration Through the Lens of Foreign Direct Investors", *Journal of International Economics* 66, 267-295.

IV. International financial markets

Sovereign Debt

Bulow J. and K. Rogoff, 1989, A constant recontracting model of sovereign debt *Journal of Political Economy* 97(1), 155-178.

Reinhart, C. and K. Rogoff, 2010. From financial crash to debt crisis, *American Economic Review*, forthcoming (NBER Working Paper 15795).

Remolona, E., Scatigna, M. and E.Wu, 2008. The dynamic pricing of sovereign risk in emerging markets: Fundamentals and risk aversion, *Journal of Fixed Income*, Spring, 57-71.

Kim, S-J. and E.Wu. 2010, International bank flows to emerging markets: Influence of sovereign credit ratings and their regional spillover effects, *Journal of Financial Research*, forthcoming.

Financial Crises

Boyer, B.H.; Kumagai, T.; Yuan, K., 2006, How Do Crises Spread? Evidence from Accessible and Inaccessible Stock Indices, *Journal of Finance*, 61, 957-1003.

Kaminsky, G. and C. Reinhart, 1999. The Twin Crises: the causes of banking and balance of payments problems. *American Economic Review* 89, 473-500.

Chari, V.V. and P. Kehoe, 2003, Hot Money, *Journal of Political Economy* 111, 1262-92.

Financial contagion

Bae, K-H., Karolyi, A., and R. Stulz, 2003. A New Approach to Measuring Financial Contagion, *Review of Financial Studies*, 16, 717-763.

Bekaert, G., Hodrick, R. and X. Zhang, 2009. International Stock Return Comovements, *Journal of Finance*, 64, 2591-2626

Forbes, K.J., Rigobon, R., 2002. No contagion, only interdependence: Measuring stock market comovements. *Journal of Finance* 57, 2223-2261.

Assessments:

Students will be assessed on three components: 1) a written empirical research paper on a topic related to one or more of those covered in the course (80%); 2) a 15min in-class presentation of a critique of one of the selected papers (15%) and 3) for active in-class participation (5%). Note: Students may choose to work as a group for the in-class presentation but not on the empirical research paper.