

# **ECON 4322-001**

## **International Finance**

### **FALL 2017**

**Instructor:** Dr. Aaron Smallwood

**Faculty profile:** <https://mentis.uta.edu/explore/profile/aaron-smallwood>

**Office Location:** COBA 327

**Phone:** (817) 272-3061

**Email:** [smallwood@uta.edu](mailto:smallwood@uta.edu)

**Office Hours:** Tuesday: 4:30-5:30 pm; Thursday: 12:45-1:45

**Course Webpage:** All course materials will be posted to the course blackboard page.

**Time and Location:** T, R 2:00 - 3:20, COBA 149.

**Textbook:** Required Readings:

Students will be required to read assigned articles from *The Wall Street Journal* throughout the course.

UTA students can access the Journal online as part of their tuition. Off campus, the following URL can be used (students will be required to provide login information):

<http://search.proquest.com.ezproxy.uta.edu/publication/10482>

For students that are interested in acquiring more direct access to the Journal, including a paper copy, you can visit the following URL, which will allow you to acquire the Journal at a special educational rate through this course:

<http://wsj.com/studentoffer>

The recommended textbook for the course is:

International Financial Management, 7th edition. Eun and Resnick.

#### **Course Description and objectives:**

Despite its title, this is an upper division level course in economics, although there is a tilt toward financial issues. The course deals with issues in international macroeconomics that emerge as a result of trade in goods and services and financial assets. International transactions are often complicated by the existence of an exchange rate, the price of one country's currency relative to another. Thus, the course begins with an introduction of the exchange rate market, a discussion of balance of payments, and a discussion of various exchange rate regimes. An introduction to concepts related to China's currency, the debt crisis in Europe, Brexit, and the euro will conclude the first half of the course. The second phase includes a discussion of hedging and exchange rate risk. We will consider how traders can use derivative assets to both hedge against risk and to speculate. Toward the end of the class, we will present the

relationship between interest rate differentials and exchange rate movements using the concept of covered interest rate parity. Time permitting, the final phase of the course will include a discussion of theories related to exchange rate determination. By the end of the course, the successful student should be able to do each of the following:

1. You will have mastered an understanding of the exchange rate market. In addition, you will be able to assess the importance of this global market.

2. You will gain a general understanding of the modern empirical theories of international finance.

3. You will gain insight into the areas where empirical international finance and theoretical international finance sometimes differ.

4. You will be able to assess the importance of international finance and its relationship with the “real world.”

**Grading:** Course grades will be based on the following:

I. Exams:

- EXAM #1 (*October 12, 2017*) 35%
- EXAM #2, FINAL EXAM (*December 12, 2017, 2-4:30 pm*): 35%

**Exam Policies:** Scantrons are not required for the exams, and you are permitted to bring a scientific non-programmable calculator to the exam. Makeup exams will not be given, except in instances where you are forced to miss class on the above dates because of a necessitated and documented emergency. Please note that students are required to be on time to class on each exam date. Also note that students are not permitted to leave and re-enter the class during administration of the exam.

II. Assignments (5 pts each)

**Assignment policy:** There will be 6 assignments based on the lectures. After each class period, I will post review questions to blackboard. On the dates listed below, I will randomly collect one of the previous eligible assignments. Please note the assignments are due at the very beginning of the class period. The assignments will be carefully graded and must be completed individually without any group effort. Therefore, you must complete every assignment. I CAN NOT accept late assignments.

**Assignment collection dates:** The dates upon which the assignments will be collected are as follows:

Assignment GROUP #1: September 7

Assignment GROUP #2: September 21

Assignment GROUP #3: October 5

Assignment GROUP #4: October 31

Assignment GROUP #5: November 14

Assignment GROUP #6: November 30

Your lowest problem set score will be replaced with a 100% (no questions asked). Otherwise, late problem sets will not be collected and there are no makeups. Please note that problem sets are collected at the BEGINNING of the class on the dates listed above. Typically, I will review the collected problem sets, and thus I **CANNOT** accept problem sets from students that arrive late to class for **ANY** reason on the dates listed above. If you are unable to arrive on time for any of the dates listed above, then you have the option of turning in all of the eligible assignments either via email or in person before the start of class.

**Attendance policy:** You must be present and on time for both exams. Otherwise, you are not formally required to be in class, although I would certainly appreciate it if you could arrive on time when you do come. Late arriving students distract the rest of the class and me. It should be noted that this particular course relies heavily on current events, and as such, there is not a natural substitute for missing class. I respect that many of you have schedules that are unbelievably complex. I would suggest that if you feel that you will need to miss class, even on rare occasions, that this particular course will not be a good fit for you. I am happy to discuss attendance with you, if necessary, at your earliest convenience.

**Drop Policy:** Students may drop or swap (adding and dropping a class concurrently) classes through self-service in MyMav from the beginning of the registration period through the late registration period. After the late registration period, students must see their academic advisor to drop a class or withdraw. Undeclared students must see an advisor in the University Advising Center. Drops can continue through a point two-thirds of the way through the term or session. It is the student's responsibility to officially withdraw if they do not plan to attend after registering. Students will not be automatically dropped for non-attendance. Repayment of certain types of financial aid administered through the University may be required as the result of dropping classes or withdrawing. For more information, contact the Office of Financial Aid and Scholarships (<http://wweb.uta.edu/aao/fao/>).

**Disability Accommodations:** UT Arlington is on record as being committed to both the spirit and letter of all federal equal opportunity legislation, including The Americans with Disabilities Act (ADA), The Americans with Disabilities Amendments Act (ADAAA), and Section 504 of the Rehabilitation Act. All instructors at UT Arlington are required by law to provide “reasonable accommodations” to students with disabilities, so as not to discriminate on the basis of disability. Students are responsible for providing the instructor with official notification in the form of a letter certified by the Office for Students with Disabilities (OSD). Only those students who have officially documented a need for an accommodation will have their request honored. Students experiencing a range of conditions (Physical, Learning, Chronic Health, Mental Health, and Sensory) that may cause diminished academic performance or other barriers to learning may seek services and/or accommodations by contacting:

The Office for Students with Disabilities, (OSD) [www.uta.edu/disability](http://www.uta.edu/disability) or calling 817-272-3364. Information regarding diagnostic criteria and policies for obtaining disability-based academic accommodations can be found at [www.uta.edu/disability](http://www.uta.edu/disability).

Counseling and Psychological Services, (CAPS) [www.uta.edu/caps/](http://www.uta.edu/caps/) or calling 817-272-3671 is also available to all students

**Non-Discrimination Policy:** UT-Arlington does not discriminate on the basis of race, color, national origin, religion, age, gender, sexual orientation, disabilities, genetic information, and/or veteran status in its educational programs or activities it operates. For more information, visit [uta.edu/eos](http://uta.edu/eos).

**Title IX Policy:** The University of Texas at Arlington (“University”) is committed to maintaining a learning and working environment that is free from discrimination based on sex in accordance with Title IX of the Higher Education Amendments of 1972 (Title IX), which prohibits discrimination on the basis of sex in educational programs or activities; Title VII of the Civil Rights Act of 1964 (Title VII), which prohibits sex discrimination in employment; and the Campus Sexual Violence Elimination Act (SaVE Act). Sexual misconduct is a form of sex discrimination and will not be tolerated. For information regarding Title IX, visit [www.uta.edu/titleIX](http://www.uta.edu/titleIX) or contact Ms. Jean Hood, Vice President and Title IX Coordinator at (817) 272- 7091 or [jmhood@uta.edu](mailto:jmhood@uta.edu).

**Academic Integrity:** Students enrolled all UT Arlington courses are expected to adhere to the UT Arlington Honor Code:

*I pledge, on my honor, to uphold UT Arlington’s tradition of academic integrity, a tradition that values hard work and honest effort in the pursuit of academic excellence. I promise that I will submit only work that I personally create or contribute to group collaborations, and I will appropriately reference any work from other sources. I will follow the highest standards of integrity and uphold the spirit of the Honor Code.*

UT Arlington faculty members may employ the Honor Code in their courses by having students acknowledge the honor code as part of an examination or requiring students to incorporate the honor code into any work submitted. Per UT System Regents' Rule 50101, §2.2, suspected violations of university's standards for academic integrity (including the Honor Code) will be referred to the Office of Student Conduct. Violators will be disciplined in accordance with University policy, which may result in the student's suspension or expulsion from the University. Additional information is available at <https://www.uta.edu/conduct/>.

**Electronic Communication:** UT Arlington has adopted MavMail as its official means to communicate with students about important deadlines and events, as well as to transact university-related business regarding financial aid, tuition, grades, graduation, etc. All students are assigned a MavMail account and are responsible for checking the inbox regularly. There is no additional charge to students for using this account, which remains active even after graduation. Information about activating and using MavMail is available at <http://www.uta.edu/oit/cs/email/mavmail.php>.

**Campus Carry:** Effective August 1, 2016, the Campus Carry law (Senate Bill 11) allows those licensed individuals to carry a concealed handgun in buildings on public university campuses, except in locations the University establishes as prohibited. Under the new law, openly carrying handguns is not allowed on college campuses. For more information, visit <http://www.uta.edu/news/info/campus-carry/>

**Student Feedback Survey:** At the end of each term, students enrolled in face-to-face and online classes categorized as "lecture," "seminar," or "laboratory" are directed to complete an online Student Feedback Survey (SFS). Instructions on how to access the SFS for this course will be sent directly to each student through MavMail approximately 10 days before the end of the term. Each student's feedback via the SFS database is aggregated with that of other students enrolled in the course. Students' anonymity will be protected to the extent that the law allows. UT Arlington's effort to solicit, gather, tabulate, and publish student feedback is required by state law and aggregate results are posted online. Data from SFS is also used for faculty and program evaluations. For more information, visit <http://www.uta.edu/sfs>.

**Final Review Week:** for semester-long courses, a period of five class days prior to the first day of final examinations in the long sessions shall be designated as Final Review Week. The purpose of this week is to allow students sufficient time to prepare for final examinations. During this week, there shall be no scheduled activities such as required field trips or performances; and no instructor shall assign any themes, research problems or exercises of similar scope that have a completion date during or following this week unless specified in the class syllabus. During Final Review Week, an instructor shall not give any examinations constituting 10% or more of the final grade, except makeup tests and laboratory examinations. In addition, no instructor shall give any portion of the final examination during Final Review Week. During this week, classes are held as scheduled. In addition, instructors are not required to

limit content to topics that have been previously covered; they may introduce new concepts as appropriate.

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**Emergency Exit Procedures**: Should we experience an emergency event that requires us to vacate the building, students should exit the room and move toward the nearest exit. When exiting the building during an emergency, one should never take an elevator but should use the stairwells. Faculty members and instructional staff will assist students in selecting the safest route for evacuation and will make arrangements to assist individuals with disabilities.

**Student Support Services**: UT Arlington provides a variety of resources and programs designed to help students develop academic skills, deal with personal situations, and better understand concepts and information related to their courses. Resources include tutoring, major-based learning centers, developmental education, advising and mentoring, personal counseling, and federally funded programs. For individualized referrals, students may visit the reception desk at University College (Ransom Hall), call the Maverick Resource Hotline at 817-272-6107, send a message to [resources@uta.edu](mailto:resources@uta.edu), or view at <http://www.uta.edu/universitycollege/resources/index.php>.

## COURSE OUTLINE:

Please note that the following outline is tentative. I fully expect, and in fact hope, that current events and your interests will lead us in a slightly different direction throughout the semester. The listed chapters refer to the corresponding coverage in the recommended textbook by Eun and Resnick.

**Week 1** (Aug 29 – 31): Exchange rate markets, the spot rate, and arbitrage (chapter 5).

**Week 2** (Sept 5-7): Exchange rate markets (bid-ask spread, triangular arbitrage, etc) (chapter 5). *Collection of first set of problem sets.*

**Week 3** (Sept 12-14): Introduction to covered interest rate parity. The no-arbitrage condition of covered interest rate parity. Exploiting deviations from covered interest rate parity. (Chapter 6).

**Week 4** (Sept 19-21): Covered interest rate parity continued. Covered interest rate parity and monetary policy. *Collection of second set of problem sets.*

**Week 5** (Sept 26- 28): History of monetary institutions: The Gold Standard, Interwar Period, Bretton Woods, and the modern float (chapter 2).

**Week 6** (Oct 3-Oct 5): Fixed and flexible exchange rate systems, continued. Emphasis on the Chinese economy and their recent “devaluation.” Arguments for and against pegging (chapter 2). *Collection of third set of problem sets.*

**Week 7** (Oct 10-12): The euro, introduced. Anatomy of major currency crises in the last 20 years (chapter 2). *EXAM #1.*

**Week 8** (Oct 17-19): Return exam #1. A history of economic integration in Europe. Optimum currency areas and the euro continued (chapter 2).

**Week 9** (Oct 24-26): Currency unions continued. The forward market (chapter 5).

**Week 10** (Oct 31- Nov 2): The forward market continued. The forward premium. Risk aversion and swap contracts (chapter 5). *Collection of fourth set of problem sets.*

**Week 11** (Nov 7-9): The balance of payments: current account, financial account, and the role of official reserves (chapter 3).

**Week 12** (Nov 14-16): Balance of payments, twin deficits (chapter 3). Currency derivatives: The futures market. Short selling and going long in a currency. (chapter 6-7). *Collection of fifth set of problem sets.*

**Week 13** (Nov 21): Hedging and speculating with futures contracts. Introduction to options contracts. Terminology (calls/puts, strikes/premium, etc). (Chapter 7)

THANKSGIVING BREAK.

**Week 14** (Nov 28 – Nov 30): Options contracts (call and puts). Exercising options. Hedging and speculating with options contracts. (chapter 7). *Collection of sixth set of problem sets.*

**Week 15** (Dec 5): Options contracts concluded. Preparation for final exam (chapter 7).