OVERVIEW

This course offers an overview of the theoretical and empirical literature in International Finance at the Ph.D. level. Students are expected to have taken Financial Theory I and International Open Economy Macroeconomics or their equivalent. The topics we focus on include models of international asset pricing, tests of international financial market efficiency, empirical evidence on international asset market returns, microstructure in the foreign exchange market, and several international corporate finance themes including measuring exposure to exchange rate changes and corporate hedging policies.

ASSIGNMENTS

Students are required to write four short (5 page) papers that summarize and critique the readings for one week. Each week one student will make a short (20-30) minute presentation to the class that reviews and evaluates the major readings and research themes for the week. These papers and presentations should help to organize the literature, highlight the important research issues, and draw attention to unresolved issues or unsatisfying results. In addition, students are required to write one more lengthy paper (10-15 pages) that either evaluates a larger section of the literature, or presents a worthy research design (hypothesis and methodology) for an original paper.

The International Economics seminar meets every Tuesday, 4:30-6:00 pm at 269 Mercer Street, 7th floor. Students should make plans to attend those seminars that cover topics related to this course. In addition, we will invite several speakers to the International Business Department seminar. Hopefully those seminars can be scheduled during our regular class meetings.
HOW TO REACH ME

In Person: Stern School of Business, 44 West 4th Street, Room 9-63, New York, NY 10012-1126.

Office Hours: Monday, 4:00 pm - 6:00 pm and Tuesday, 10:00 am - 12:00 Noon and by appointment.

Electronically: Phone: 212-998-0422; FAX: 212-995-4220; E-mail: rlevich@stern.nyu.edu

My Secretary: Ms. Robyn Vanterpool, Phone: 212-998-0702; E-mail: rvanterp@stern.nyu.edu

Course Web Page: Through my personal web page at www.stern.nyu.edu/~rlevich/
Watch this page for course announcements, links to recent research articles, and other information.

TEXT

There is no text for the course, but there are several books that offer good background for selected topics.


I. Introduction: The Gains from International Borrowing and Lending


II. A Historical Perspective on International Capital Flows


Eichengreen, Barry, “Trends and Cycles in Foreign Lending,” NBER working paper no. 3411, August 1990.

III. International Asset Pricing, Part I: Models with PPP

A. Static Models


B. Intertemporal Models


IV. International Asset Pricing, Part II: Models with Stochastic Real Exchange Rates

A. Static Models in CAPM Framework


**B. Static International APT Models**


**V. International Asset Pricing, Part III: Intertemporal Models without PPP**

**A. Consumption Based Models**


**B. Models with Incomplete Markets**


**VI. International Asset Pricing, Part IV: General Equilibrium Models**


VII. International Asset Pricing, Part V: Barriers to International Investment


VIII. Testing Parity Conditions and Market Efficiency


A. Purchasing Power Parity


B. Covered Interest Parity


C. Uncovered Interest Parity


**D. Technical Trading Models**


E. Excess Volatility Tests


IX. Models of Exchange Rate Determination

A. Leading Indicators


B. Forecasting Exchange Rates


C. Exchange Rates and "News"


X. Empirical Evidence on the Structure of International Equity Returns

A. Correlation of Returns


B. Portfolio Selection and Asset Allocation


C. Empirical Analysis of Models of Equilibrium Returns

### D. Empirical Evidence on International APT Models


### E. Evidence on Market Integration vs. Segmentation


### F. Home Country Bias in Portfolios


### G. Performance of International Mutual Funds

### H. Emerging Market Equity Returns


I. Closed-End Country Funds


XI. Studies of Individual Markets or Contracts: Foreign Exchange Futures


XII. Studies of Individual Markets or Contracts: Foreign Currency Options


**XIII. Selecting and Hedging Portfolios of Foreign Assets**


**XIV. International Corporate Finance, Part I: Measuring Exchange Rate Exposure**


XV. International Corporate Finance, Part II: Hedging Policies of Multinational Firms


XVI. International Corporate Finance, Part III: Investment Policies and Measuring the Value of Multinationality


XVII. International Corporate Finance, Part IV: Capital Structure Issues in International Corporate Finance


XVIII. Market Microstructure in the Foreign Exchange Market


Huang, Roger D. and Ronald W. Masulis, "FX Spreads and Dealer Competition Across the 24-Hour Trading Day," Vanderbilt University (Owen School) working paper 95-17, August 19, 1997. (Forthcoming JFE)


XIX. International Bank Lending and Sovereign Debt