ECON 4322-001
International Finance
FALL 2015

Instructor: Dr. Aaron Smallwood
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Office Hours: Tuesday: 12:45-1:45 pm; Wednesday: 5:45-6:45
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. I will provide instructions on how you can purchase the Journal at a special price should you decide you want a paper copy and/or easy digital access. UTA students can also 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

The recommended textbook for the course is:

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, 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 access the importance of international finance and its relationship with the “real world.”
Grading: Course grades will be based on the following:

Assignments (5 pts each) 30%
Exam 1: 35%
Exam 2: 35%

I. Exams:

Exam 1: Tentatively scheduled for October 15, 2015
Exam coverage: determined by pace of the course.
Final Exam: December 15, 2015: 2:00-4:30 p.m.
Exam coverage: Again determined by the pace of the course.

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:

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. The dates upon which the assignments will be collected are as follows:

Assignment #1: September 10
Assignment #2: September 24
Assignment #3: October 8
Assignment #4: October 29
Assignment #5: November 12
Assignment #6: December 3

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 whatever 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.
III. Attendance:

At The University of Texas at Arlington, taking attendance is not required. Rather, each faculty member is free to develop his or her own methods of evaluating students’ academic performance, which includes establishing course-specific policies on attendance. As the instructor of this section, formally, attendance is not mandatory. You may have been successful in previous courses with intermittent attendance supplemented by reading the textbook. Unfortunately, this course will not lend itself well to that strategy. Due to the dynamic nature of the course and its concentration on current events, I do not anticipate that you will be successful without attending each class period. I understand the complexities that go along with a college schedule, especially for those that have significant responsibilities outside the classroom. However, if you feel that you miss class occasionally, then I suspect you will find yourself struggling immensely. Please feel free to discuss any specific concerns you may have.

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 nonattendance. 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/).

Americans with Disabilities Act: The University of Texas at 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). 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 that disability. Any student requiring an accommodation for this course should provide me with official documentation in the form of a letter certified by the staff in the Office for Students with Disabilities, University Hall 102. Only those students who have officially documented a need for an accommodation will have their request honored. Information regarding diagnostic criteria and policies for obtaining disability-based academic accommodations can be found at www.uta.edu/disability or by calling the Office for Students with Disabilities at (817) 272-3364.

Title IX: The University of Texas at Arlington is committed to upholding U.S. Federal Law “Title IX” such that no member of the UT Arlington community shall, on the basis of sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any education program or activity. For more information, visit www.uta.edu/titleIX.

Academic Integrity: Students are expected to adhere to the 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 as they see fit in their courses, including (but not limited to) 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 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.

**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](http://www.uta.edu/oit/cs/email/mavmail.php).

**Student Feedback Survey:** Students enrolled in this class shall be 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 enters the SFS database anonymously and is aggregated with that of other students enrolled in the course. UT Arlington’s effort to solicit, gather, tabulate, and publish student feedback is required by state law; students are strongly urged to participate. For more information, visit [http://www.uta.edu/sfs](http://www.uta.edu/sfs).

**Final Review Week:** A period of five class days prior to the first day of final examinations in this session 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 I will not assign any themes, research problems or exercises of similar scope that have a completion date during or following this week. During Final Review Week, I will not give any examinations constituting 10% or more of the final grade, except in the unlikely event of a makeup test. In addition, I will not give any portion of the final examination during Final Review Week. During this week, classes are held as scheduled. In addition, please note, instructors are not required to limit content to topics that have been previously covered; I will likely introduce new concepts as appropriate. Also, note, you do have a problem set due on December 3, which is worth 5% of your overall course grade.

**Emergency Exit Procedures:** Should we have an emergency that requires us to leave 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 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, or view the information at [www.uta.edu/resources](http://www.uta.edu/resources).

**Course Outline:** Please note that the course is very dynamic and thus will be skewed heavily toward current events. Please note that topics can and will likely change and that the following may also change due to the pace of the course.
Week 1 (Sept 1-3): Exchange rate markets, the spot rate, and arbitrage (chapter 5).
Week 2 (Sept 8-10): Exchange rate markets (bid-ask spread, triangular arbitrage, etc) (chapter 5). **Collection of first set of problem sets.**
Week 3 (Sept 15-17): The balance of payments: current account, financial account, and the role of official reserves (chapter 3).
Week 4 (Sept 22-24): Balance of payments, twin deficits, and the history of monetary institutions (chapter 3 and chapter 2). **Collection of second set of problem sets.**
Week 6 (Oct 6-Oct 8): 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 13-15): The euro, introduced. Anatomy of major currency crises in the last 20 years (chapter 2). EXAM #1.
Week 9 (Oct 27-29): Currency unions continued. The forward market (chapter 5). **Collection of fourth set of problem sets.**
Week 10 (Nov 3-5): The forward market continued. The forward premium. Risk aversion and swap contracts (chapter 5).
Week 11 (Nov 10-12): Introduction to covered interest rate parity. The no arbitrage condition of covered interest rate parity. Exploiting deviations from covered interest rate parity. (Chapter 6). **Collection of fifth set of problem sets.**
Week 13 (Nov 24): Hedging and speculating with futures contracts. Introduction to options contracts. Terminology (calls/puts, strikes/premium, etc). (Chapter 7) THANKSGIVING BREAK.
Week 14 (Dec 1-3): 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 8): Options contracts concluded. Preparation for final exam (chapter 7).

TIME PERMITTING: Uncovered interest rate parity and market efficiency. Purchasing power parity and the monetary approach to exchange rate determination. (chapter 6).