

Global Financial Markets & Institutions

[FINC-249-03]

Fall 2006

Instructor: Professor Ludwig Chincarini, CFA, Ph.D.

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Office Hours: 2nd Floor of Library (Mon & Wed 4:00-5:00 PM) or by request.

Class Hours & Location: Monday & Wednesday 6:15-7:30 P.M. Room: MAG 102

Prerequisites: FINC-211.

Course Description: *The course is intended to provide an understanding of the global financial environment. To understand how financial systems function in various parts of the world, determinants of money flows and trade flows between countries, how different financial systems effect the flow of money and trade through the global system, how exchange rates and interest rates are determined, the roles of investment banks, central banks, the World Bank and IMF, and the role of politics and economics. The course will also study difficult questions, such as should we have multiple currencies, is free-trade good for all, should we export jobs, and is the World Bank and IMF useful?*

Course Objective: *To be familiar with the global financial environment. To be able to read the press and understand issues related to world trade or world investments. To be able to understand and analyze the merits of different political proposals; with regards to exchange rates, interest rates, and trade. To be able to make more intelligent investment decisions based upon the understanding of parts of the global financial system.*

Required Texts:

Liaw, K. Thomas, *Capital Markets*, 1st Edition, (Thomson-South-Western), 2004.

Reader: A compilation of articles relevant to the course will be provided electronically on Blackboard.

Handouts: Depending on current news topics, handouts relevant to the material will be distributed to students throughout the semester. It will be the students' responsibility to obtain any missed handouts due to absence at a particular class.

Other Reading:

1. The Wall St. Journal
2. The Economist

Other Non-Required Books:

1. King, Philip. *International Economics and International Economic Policy*. [A collection of articles on various topics related to international trade & finance.]
2. Krugman, Paul and Maurice Obstfeld. *International Economics: Theory and Policy*. [A standard undergraduate textbook in international economics.]
3. Dornbusch, Rudiger. *Dollars, Debts, and Deficits*. [A classic text with prescriptions of various international problems, including the debt burden of less developed countries.]
4. Butler, Kirk C.. *Multinational Finance*. [A book that looks at the world economy from the prospective of a multi-national corporation.]

Website References:

1. www.bis.org [A website of the Bank for International Settlements, which provides articles and data on the world economy.]
2. www.fed.org [The United States Central Bank provides articles, data, and resources.]
3. www.ecb.int [The site of the European Central bank.]
4. www.imf.org [The site of the International Monetary Fund.]
5. www.worldbank.org [The site of the World Bank.]

Course Requirements and Grading:

Class Participation:	10 %
Mid-Term:	30 %
Class Paper:	10 %
Final Exam:	35 %
Assignments:	5 %

Further Notes:

- **Class participation** consists of attendance, making comments, answering questions, and or posing questions during class. I may randomly call on people. Please come to class on time for consideration of your professor and fellow students.
- *The Mid-Term will contain questions on material covered up to that point in the semester.*
- **Class paper(s)** will consist of group projects (2-3 per group) in which students prepare a document related to analyzing a real-world current issue and making an argument for or against the policy. The due dates for each part have not been set, but as soon as they are, students shall be given the dates.
- *The Final Exam will be based upon material covered during the second part of the course.*
- **Assignments and/or short-essay questions** will be given so that students can practice answering questions over the material studied, but will not be graded unless explicitly specified. Students are *strongly encouraged* to do problem sets. Students are encouraged to pay attention to financial news as some questions may be linked to current financial market events and we will spend considerable time on current events.

A Note on Academic Honesty: Cheating is against the honor code of Georgetown University. Thus, projects, exams, quizzes, and homework should be done with complete integrity. If a case of cheating is detected, I am required by the university to report it to the honor council. Any act of plagiarism is a serious break of academic standards and a deliberate case can lead to suspension or expulsion. Any quotation from another source, whether written or spoken, must be bound by quotation marks and footnoted. Paraphrases must be footnoted as well. Generally, cite the use of words or work by others. Students agree that by taking this course, papers may be submitted to Turnitin.com for the detection of plagiarism.

Organization and Course Outline¹

Part I: A Single, Isolated Political Boundary

Session I: September 6, 2006²

1. Intro to course
2. Overview of the Course
3. **The Closed Economy w/ Money**
Reading: Chapter 6, Blanchard. Reader.
Chincarini, Ludwig. “Notes on Macroeconomics.”
Reader.
Chapter 16, Blanchard. Reader.

Session 2: September 11, 2006

4. **The Closed Economy w/ Money**
Reading: Chapter 6, Blanchard. Reader.
Chincarini, Ludwig. “Notes on Macroeconomics.”
Reader.
Chapter 16, Blanchard. Reader.

¹ This may change as we progress through the semester, but in that case, a new outline will be handed out.

² In all cases, dates are the most probable, but again this could change as the semester evolves.

Sessions 3: September 13, 2006

5. **A Monetary Authority: *The U.S. Case, The Federal Reserve***
Reading: Chapter 2, Liaw
The Federal Reserve System: Purposes & Functions.
[<http://www.federalreserve.gov/pf/pdf/frspurp.pdf>]
Dornbusch, Rudiger. "How the Fed Can Tame the
Savage Currency Markets." Chapter 12, Keys to
Prosperity. Reader.
Chapter 20, Jaffee. Reader.
Taylor, John. "Discretion Versus Policy Rules in
Practice." Reader.
*Chapter 17, Jaffee. Reader.*³

Sessions 4: September 18, 2006

6. **Debt Markets: Money Market & Bond Market**
Reading: Chapter 6 & 7, Madura. Reader.

Sessions 5: September 20, 2006

7. **Debt Markets: Money Market & Bond Market**
Reading: Chapter 6 & 7, Madura. Reader.

Session 6: September 25, 2006

8. **Commercial Banking, Investment Banking, Investment
Companies, Brokerage Companies**
Reading: Chapter 3,4,5 & 6, Liaw.
Chapter 10, Jaffee. Reader.
Chapter 12, Jaffee. Reader.
9. **Regulation of Financial Services: The SEC, NASD, and the Fed**
Reading: "The Investor's Advocate: How the SEC Protects
investors and Maintains Market Integrity." Reader.
NASD Corporate Description. Reader.

³ Italics articles are not in the reader and are extra reading in the textbooks listed if students so wish.

Part 2: Multiple Political Boundaries

Session 7: September 27, 2006

10. **Political Boundaries**
Reading: Chapter 7, Gilpin.

11. **The Open Economy IS-LM (Mundell-Fleming Model)**
Reading: Chapter 17, Krugman & Obstfeld. Reader.
Chapter 19, Blanchard. Reader.
Dornbusch, Rudiger. "Capital Controls: An Idea Whose Time Is Gone." Chapter 9, Keys to Prosperity. Reader.

Session 8: October 2, 2006

12. **The Open Economy IS-LM (Mundell-Fleming Model)**
Reading: Chapter 17, Krugman & Obstfeld.
Chapter 19, Blanchard.

Session 9: October 4, 2006

13. **Special Topic: Many Monetary Authorities or Just One?**
Reading: "Currency Areas, Exchange Rate Systems and International Monetary Reform." Reader.

***** October 9: No Class Columbus Day *****

Session 10: October 11, 2006

14. Other Monetary Authorities: Europe, Japan, Asia, & Russia, & Latin America

Reading: Liaw, Chapter 2, pp. 33-39. Chapter 20, p.478.
Chapter 20, p. 490. Chapter 20, p. 504, p.496, and pp.
498-499.

Session 11: October 16, 2006

15. Other Monetary Authorities: Europe, Japan, Asia, & Russia, & Latin America

Reading: Liaw, Chapter 2, pp. 33-39. Chapter 20, p.478.
Chapter 20, p. 490. Chapter 20, p. 504, p.496, and pp.
498-499.

Session 12: October 18, 2006

16. The Determination of Exchange Rates

Reading: Chapter 2 & 3, Copeland. Reader.
Chapter 21, Jaffee. Reader.
“The Purchasing Power Parity Puzzle,” K. Rogoff.
Reader.
Chapter 14 & 16, Krugman & Obstfeld.

Session 13: October 23, 2006

17. **The Determination of Exchange Rates**
Reading: Chapter 2 & 3, Copeland. Reader.
Chapter 21, Jaffee. Reader.
“The Purchasing Power Parity Puzzle,” K. Rogoff.
Reader.
Chapter 14 & 16, Krugman & Obstfeld

Session 14: October 25, 2006

18. **Different Exchange Rate Regimes: Fixed, Floating, Crawling, and Boards**
Reading: Chapter 18, Krugman & Obstfeld. Reader.
Chapters 5 & 6, Copeland.
Chapter 22, Jaffee.

Session 15: October 30, 2006

19. **Midterm Examination**

Session 16: November 1, 2006

20. **The International Monetary System**
Reading: Chapter 2, Butler. Reader.
Chapter 9, Gilpin.
Chapter 19, Krugman & Obstfeld.
21. **The International Financial System**
Reading: Chapter 3, Butler. Reader.
Chapter 10, Gilpin.

Session 17: November 6, 2006

22. **Currency Crises: Mexico I, Mexico II, Argentina, Thailand**
Reading: “Mexico Stabilization, Reform, and No Growth,”
R. Dornbusch. Reader.
“Lessons from the Mexico Crisis,” Birdsall et al. Reader.

Session 18: November 8, 2006

23. **Currency Crises: Mexico I, Mexico II, Argentina, Thailand**
Reading: “Mexico Stabilization, Reform, and No Growth,”
R. Dornbusch. Reader.
“Lessons from the Mexico Crisis,” Birdsall et al. Reader.

Session 19: November 13, 2006

24. **BIS and Currency Interventions**
Reading: “BIS as a bank for Central Banks” Reader.
“Financial Services”. Reader.

Session 20: November 15, 2006

25. **International Trade: Theories, Reality, and Institutional Framework**
Reading: Chapter 8, Gilpin.
Chapter 2, 5, 6, & 11, Krugman & Obstfeld.
Krugman, Paul. “Protection in Developing Countries.”
Chapter 6, Policymaking in the Open Economy. Reader.

Session 21: November 20, 2006

26. **International Banking & ADRs**
Reading: Chapter 21, Madura. Reader.
Chapter 2, 5, 6, & 11, Krugman & Obstfeld.
Kiaw, Chapter 12.
Chapter 21, Jaffee.

Session 22: November 22, 2006

27. **Hedge Funds**
Reading: Kiaw, pp. 121-125
Chapter 1 & 16. Chincarini & Kim.

Session 23: November 27, 2006

28. **World Insurance (a.k.a. The Governors of the System)**
Reading: Chapter 10, Gilpin.
Dornbusch, Rudiger. "Paper Tigers, the IMF, and the World Capital Market," Chapter 40, Keys to Prosperity. Reader.

Session 24: November 29, 2006

29. **World Financial Crises: Asia, Mexico, Russia & Others**
Reading: Chapter 10, Gilpin.
Chapter 19, Pages: 458-466, Liaw.
Dornbusch, Rudiger. "After Asia: New Directions for the International Financial System," Chapter 16, Keys to Prosperity. Reader.
Dornbusch, Rudiger. "Mexico---The Folly, the Crash, and Beyond," Chapter 32, Keys to Prosperity. Reader.
30. **The Euro, the Reserve Currency, and Optimum Currency Areas**
Reading: Chapter 17, Liaw.
Chapter 21, Krugman & Obstfeld. Reader.

Session 25: December 4, 2006

31. **World Financial Crises: Asia, Mexico, Russia & Others**
Reading: Chapter 10, Gilpin.
Chapter 19, Pages: 458-466, Liaw.
Dornbusch, Rudiger. "After Asia: New Directions for the International Financial System," Chapter 16, Keys to Prosperity. Reader.
Dornbusch, Rudiger. "Mexico---The Folly, the Crash, and Beyond," Chapter 32, Keys to Prosperity. Reader.

Session 26: December 6, 2006

32. **The Euro, the Reserve Currency, and Optimum Currency Areas**
Reading: Chapter 17, Liaw.
Chapter 21, Krugman & Obstfeld. Reader.
33. **Words of Wisdom & Review for Final**

Session 27: December 13, 2006

34. **Final Examination: 7-9 PM⁴**

Guest Speakers⁵

1. **Guest Speaker 1: TBA**
2. **Guest Speaker 2: TBA**

⁴ *Note:* We will miss class on the following days.
September 4, 2006: Labor Day
October 9, 2006: Columbus Day

⁵ None of the guest speakers are confirmed.