Course Objectives
This course is designed to introduce students to Global financial markets with an emphasis on the European dimension. Students will learn about various international financial markets such as the foreign exchange market, the Eurocurrency market and Eurobond market. In addition, students will study a range of financial instruments such as bills and bonds, collateralised debt obligations and credit default swaps, options, forwards and futures. The course will also mention topical issues such as European Monetary Union and International Financial Crisis.

Reading
The main text to be used on this course are:

Keith Pilbeam (2010), Finance and Financial Markets (F&FM), Palgrave Macmillan. or

Additional readings may be posted on the course webpage: http://learn.bu.edu

Course Requirements
STUDENTS WHO ARE ON THE COURSE MUST BRING WITH THEM TO EVERY SESSION THE FOLLOWING:

1. A calculator - NOT on mobile/cell phone!

2. A copy of that day's Financial Times (supplied by Boston University).

3. Students will also benefit from reading the Economist magazine (weekly).
Assessment

The assessment on this course is made up of three factors (weighting in brackets):

1) Attendance plus Internet Project report. (15%)
2) In class test - 1 hour Monday 12 February. (35%)
3) Final exam Tuesday 20 February, of 2 hours, 50 question MCQ paper answer test 2 marks each. The test covers the whole of the course with slightly more emphasis placed on the second part of the course. (50%)

Grading Scale

The following scale will be applied:
A = 90+, A- = 85-89, B+ = 80-84, B = 75-79, B- = 70-74, C+ = 65-69, C=60-64, C-=55-59, D = 50-54, F less than 50.

Grading

Please refer to the Academic Handbook for detailed grading criteria and policies on plagiarism: http://www.bu.edu/london/current-semester

* Final Grades are subject to deductions by the Academic Affairs Office due to unauthorised absences.

Attendance Policy

Classes

All Boston University London Programme students are expected to attend each and every class session, seminar, and field trip in order to fulfil the required course contact hours and receive course credit. Any student that has been absent from two class sessions (whether authorised or unauthorised) will need to meet with the Directors to discuss their continued participation on the programme.

Authorised Absence:

Students who expect to be absent from any class should notify a member of Academic Affairs and complete an Authorized Absence Approval Form 10 working days in advance of the class date (except in the case of absence due to illness for more than one day. In this situation students should submit the Authorised Absence Approval Form with the required doctor’s note as soon as possible). The Authorised Absence Approval Request Form is available from: http://www.bu.edu/london/current-semester/

Please note: Submitting an Authorised Absence Approval Form does not guarantee an authorised absence

Students may apply for an authorised absence only under the following circumstances:

- **Illness (first day of sickness):** If a student is too ill to attend class, the student must phone the BU London Student Affairs Office (who will in turn contact the student’s lecturer).
- **Illness (multiple days):** If a student is missing more than one class day due to illness, the student must call into the BU London Student Affairs Office each day the student is ill. Students must also provide the Student Affairs office with a completed Authorised Absence Approval Form and a sick note from a local doctor excusing their absence from class.
- Important placement event that clashes with a class (verified by internship supervisor)
• Special circumstances which have been approved by the Directors (see note below).

The Directors will only in the most extreme cases allow students to leave the programme early or for a significant break.

Unauthorized Absence:
Any student to miss a class due to an unauthorised absence will receive a 4% grade penalty to their final grade for the course whose class was missed.

This grade penalty will be applied by the Academic Affairs office to the final grade at the end of the course. As stated above, any student that has missed two classes will need to meet with the Directors to discuss their participation on the programme as excessive absences may result in a ‘Fail’ in the class and therefore expulsion from the programme.

Religious Holidays
Boston University’s Office of the University Registrar states:

‘The University, in scheduling classes on religious holidays and observances, intends that students observing those traditions be given ample opportunity to make up work. Faculty members who wish to observe religious holidays will arrange for another faculty member to meet their classes or for cancelled classes to be rescheduled.’

Special Accommodations
Each student will need to contact the Office of Disability Services to request accommodations for the semester they are abroad. Students are advised by BU-ODS not to expect the same accommodations as they receive on campus.

BU London can only uphold special accommodations if we have received the appropriate documentation from the BU-ODS. We cannot accept letters from other universities/centres.

All disabilities need to be known to the ODS in Boston if they are to be used as a reason for requiring a change in conditions, i.e. reduced internship hours or special accommodations for the internship schedule.

Lateness
Students arriving more than 15 minutes after the posted class start time will be marked as late. Any student with irregular class attendance (more than two late arrivals to class) will be required to meet with the Associate Director for Academic Affairs and if the lateness continues, may have his/her final grade penalised.

Course Timings
Wednesday 17 January
Monday 22 January
Tuesday 23 January
Monday 29 January
Tuesday 30 January
Monday 5 February
Tuesday 6 February  
Monday 12 February (in class test)  
Tuesday 13 February  
Friday 16 February (Bank of England Trip)  
Tuesday 20 February (Final Exam)  

* Contingency Class Date: Friday 9 February. Students are obligated to keep this date free to attend classes should any class dates need to be rescheduled.  

INTERNET PROJECT - by Tuesday 6 February TO THE PROFESSOR, STUDENTS MUST HAND IN THEIR INTERNET PROJECT. I EXPECT YOU TO REVIEW 5 FINANCE SITES ON THE WEB TELLING ME WHAT YOU LIKE ABOUT THE SITES AND DISLIKE ABOUT THEM. APPROXIMATELY 150 WORDS PER SITE.  

Bank of England Trip Friday 16th February  
Bank of England visit (combination of guided walking tour and museum visit)  
A detailed email will be sent to students outlining the groups and directions.  

Final Exam: Tuesday 20th February Students MUST bring a calculator to the final exam. Calculators on mobile/cell phones are not permitted!  

Exam times and locations will be posted on the BU London Programmes Blackboard course page and will be emailed to students, a week before the final exam.
SESSION 1: INTRODUCTION TO THE FOREIGN EXCHANGE MARKET
1.1 Introduction
1.2 Exchange rate definitions
1.3 Characteristics and participants in the foreign exchange market
1.4 The Spot and Forward exchange rates
1.5 Hedging in the foreign exchange market
1.6 Arbitrage in the foreign exchange market
1.7 Speculation in the foreign exchange market
1.8 Nominal, real and effective exchange rates
1.9 Conclusions

SESSION 2: FORWARD EXCHANGE RATES AND COVERED INTEREST PARITY
2.1 A simple model of the determination of the spot exchange rate
2.2 The difference between sterilized and non-sterilized foreign exchange intervention
2.3 Covered interest parity (CIP) and the determination of the forward exchange rate
2.4 Conclusions

Main Reading Sessions 1 and 2:
Pilbeam (F&FM) chapter 11

SESSION 3: PURCHASING POWER PARITY AND UNCOVERED INTEREST PARITY
3.1 Introduction
3.2 Purchasing Power Parity (PPP) theory and the law of one price
3.3 Absolute and relative PPP
3.4 Empirical evidence on PPP
3.5 Summary of empirical evidence on PPP
3.6 Explaining the poor performance of Purchasing Power Parity Theory
3.7 Uncovered Interest Parity (UIP)
3.8 The economics of the carry trade
3.9 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 12 pp.289-299

SESSION 4: MONEY MARKET OPERATIONS & INTERNATIONAL MONEY MARKET
4.1 Difference between bills and bonds
4.2 Expansionary and contractionary open market operations in theory and practice
4.3 The term structure of interest rates and the yield curve
4.4 Theories of the yield curve
4.5 The origins and development of the eurodollar market
4.6 The characteristics of the eurodollar market
4.7 The creation of eurodollar deposits and Eurodollar loans
4.8 The TED spread
4.9 Euromarkets and currency and country risks
4.10 Euromarkets and Government Regulation and Policy and LIBOR scandal
4.11 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 4 pages 71-78 & 87-93, chapter 5
SESSION 5: THE INTERNATIONAL BOND MARKET, COLLATERALIZED DEBT OBLIGATIONS AND CREDIT DEFAULT SWAPS

5.1 Domestic bonds, Eurobonds and Foreign bonds
5.2 Structure of the market
5.3 A Eurobond issue
5.4 The role of the Credit Rating Agencies (CRAs)
5.5 Features of a typical Eurobond
5.6 Regulation and taxation
5.7 The role of the lead manager, underwriters and selling group
5.8 Collateralized Debt Obligations (CDOs)
5.9 Credit Default Swaps (CDSs)
5.10 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 6 and chapter 17 pages 411-429

SESSION 6: FUTURES MARKETS

6.1 Futures contracts the basics
6.2 Stock index futures the S&P500 contract
6.3 Hedging, speculation and arbitrage
6.4 Reversing trades and open interest
6.5 Pricing of S&P500 stock index futures
6.6 Interest rate futures
6.7 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 13

SESSION 7 OPTIONS THE BASICS

7.1 Basic terminology
7.2 Call and Put option examples
7.3 The margining process
7.4 European and American Options
7.5 Options on individual stocks
7.6 The straddle payoff
7.7 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 14

SESSIONS 8 & 9 OPTIONS MORE ADVANCED ISSUES

8.1 The intuition behind option pricing.
8.2 Option Trading Strategies Straddles and Strangles
8.3 Intrinsic value and time value
8.4 In the money and out of the money options
8.5 The behaviour of time value as the share price changes
8.6 Determinants of call option premium
8.7 The VIX index.
8.8 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 15 pages 373-379 and for VIX index pages 384-5