Instructor Information
A. Name Professor Keith Pilbeam

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 cover topical issues such as European Monetary Union.

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

Keith Pilbeam (2013), International Finance (IF), Palgrave Macmillan.

Additional readings may be posted on the course webpage: https://lms.bu.edu
(you must be logged in to view materials)

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. (10%)

2) Take home coursework – 5 short answers of about 1 side each or (about 300 words) set at the fourth session of the course and the research for which is to be worked on during the first two Mondays of the course. (40%) Due Monday 28 January, by 12 noon to the Student Affairs Office.

3) Final exam - 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, attendance requirements and policies on plagiarism: http://www.bu.edu/london/current-semester

Attendance Policy

Classes

All Boston University London Programme students are expected to attend each and every class session, tutorial, and field trip in order to fulfill 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 which students should submit the Authorised Absence Approval Form with the required doctor’s note as soon as possible). 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, supported by a local London doctor’s note (submitted with Authorised Absence Approval Form).
• 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 (for example, death in close family) 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.

**Course Timings**

Monday 21 January  
Tuesday 22 January  
Monday 28 January  
Tuesday 29 January  
Monday 4 February  
Tuesday 5 February

**Friday 8 February**  
Bank of England Trip  
9.45am: 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.  

Monday 11 February  
Tuesday 12 February

Tuesday 19 February: Final Exam. 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 website and in the Student Newsletter two weeks before exam dates.
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
1.4 Hedging in the Foreign Exchange Market
1.5 Arbitrage in the Foreign Exchange Market
1.6 Speculation in the Foreign Exchange Market
1.7 Nominal, Real and Effective Exchange Rates
1.8 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 sterilised and non sterilised foreign exchange intervention
2.3 Covered Interest Parity 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 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
3.8 The Economics of the Carry Trade
3.9 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 12 pp.289-299
Pilbeam (IF) chapter 6, Chapter 7 p.147-51

SESSION 4: EUROPEAN MONETARY UNION

4.1 Introduction
4.2 What is meant by Monetary Union?
4.3 A Brief History of European Monetary Union
4.4 Benefits and Costs of European Monetary Union
4.5 The Maastricht Treaty and Convergence Criteria
4.6 The Growth and Stability Pact
4.7 The Euro as a currency
4.8 The Euro and the UK
4.9 The problem of the PIIGS-Portugal, Ireland, Italy, Greece & Spain
4.10 The causes of Eurozone crisis
4.11 PIIGS bond yields and Sovereign Credit Default Swaps
4.12 Possible solutions for resolving the crisis
4.13 Future enlargement of the Eurozone
4.14 Conclusions

Main Reading:
Pilbeam (IF) chapter 16 – Note International Finance Text!
SESSION 5: MONEY MARKET OPERATIONS & INTERNATIONAL MONEY MARKET
5.1 Difference between bills and bonds
5.2 Expansionary and contractionary open market operations in theory and practice
5.3 The term structure of interest rates and the yield curve
5.4 Theories of the Yield curve
5.5 The Origins and Development of the Eurodollar market
5.6 The Characteristics of the Eurodollar Market
5.7 The Creation of Eurodeposits
5.8 The TED spread
5.9 Euromarkets and Currency and Country Risks
5.10 Euromarkets and Government Regulation and Policy
5.11 Conclusions

Main Reading:
Pilbeam (F&FM) chapter 4 pages 71-78 & 87-93, chapter 5

SESSION 6: THE INTERNATIONAL BOND MARKET, COLLATERALIZED DEBT OBLIGATIONS AND CREDIT DEFAULT SWAPS
6.1 Difference between bills and bonds
6.2 Domestic bonds, Eurobonds and Foreign Bonds
6.3 Structure of Market
6.4 A Eurobond issue
6.5 The role of the Credit Rating Agencies
6.6 Features of a typical Eurobond
6.7 Regulation and Taxation
6.8 The role of the lead manager, underwriters and selling group
6.9 Collateralized Debt Obligations CDOs
6.10 Credit Default Swaps CDSs

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

BY Monday 11 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.

SESSION 7: FORWARD/ FUTURES MARKETS
7.1 Forward contracts
7.2 Hedging, Speculation and Arbitrage
7.3 Covered Interest Parity and Forward Pricing
7.4 Currency Futures
7.5 Stock Index Futures
7.6 Interest rate futures

Main Reading:
Pilbeam (F&FM) chapter 13
SESSION 8 OPTIONS THE BASICS
8.1 Call and Put Options
8.2 The over the counter market
8.3 Exchange Traded currency options.
8.4 European and American Options
8.5 Put and call options
8.6 Options on individual stocks
8.7 The intuition behind option pricing.
8.8 The VIX index.

Main Reading:
Pilbeam (F&FM) chapter 14 and for VIX index pages 384-5

FINAL EXAMINATION