



Boston University International Programs
London

Boston University British Programmes
European Capital Markets
CAS EC 346 (Elective A)
Spring 2011

Instructor Information

A. Name	Professor Keith Pilbeam
B. Day and Time	Mondays and Tuesdays (plus Friday 11 February), 9am-1pm
C. Location	Crofton Bell room, 14 Queens Gate, SW7 5JE
D. BU Telephone	020 7244 6255
E. Email	[REDACTED]
F. Webpage	http://www.bu-london.co.uk/academic/ec346
G. Office hours	By appointment

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 (2010), *Finance and Financial Markets (F&FM)*, Palgrave Macmillan.

Keith Pilbeam (2005), *International Finance (IF)*, Palgrave Macmillan.

Ian Giddy (1994), *Global Financial Markets*, D C Heath.

Additional readings may be posted on the course webpage:

<http://www.bu-london.co.uk/academic/ec346> (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
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%)
- 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.

Please refer to the Academic Handbook for detailed grading criteria, attendance requirements and policies on plagiarism:

<http://www.bu-london.co.uk/files/images/ACADEMICHANDBOOKSP11.pdf>

Course Timings

Monday 17 th Jan	Lecture, 9.00-1.00
Tuesday 18 th Jan	Bank of England visit (combination of guided walking tour and self-guided museum visit) Group 1: 12.15pm. Meet by the statue of Wellington outside Bank Station (Royal Exchange Exit). Bank of England visit at 2.00pm (Group 2 to meet on steps of Bank of England to go to museum, 1.50pm) Group 2: 3.10pm from outside Bank of England Museum entrance.

A detailed email will be sent to students outlining the groups and directions.

Monday 24 th Jan	Lecture, 9.00-1.00
Tuesday 25 th Jan	Lecture, 9.00-1.00
Monday 31 st Jan	Lecture, 9.00-1.00
Tuesday 1 st Feb	Lecture, 9.00-1.00
Monday 7 th Feb	Lecture 9.00-1.00
Tuesday 8 th Feb	Lecture 9.00-1.00
Friday 11 th Feb	Lecture, 9.00-1.00

Tuesday 15th Feb	Final Exam Exam times and locations will be posted on the BU London website and in the Student Newsletter two weeks before exam dates.
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*** Contingency Class Date: Friday 4th February.** Students are obligated to keep this date free to attend class should any class dates need to be rescheduled. **(It is highly likely that it may be used for this course)**

SESSION 1: INTRODUCTION TO THE FOREIGN EXCHANGE MARKET

- 1.1 Introduction
- 1.2 Exchange Rate Definitions
- 1.3 Characteristics and Participants of the Foreign Exchange Market
- 1.4 Arbitrage in the Foreign Exchange Market
- 1.5 The Spot and Forward Exchange Rates
- 1.6 Nominal, Real and Effective Exchange Rates
- 1.7 A Simple Model of the Determination of the Spot Exchange Rate

SESSION 2: FORWARD EXCHANGE RATES AND COVERED INTEREST PARITY

- 2.1 Covered Interest Parity
- 2.2 The Determination of the Forward Exchange Rate
- 2.3 Hedging using the forward exchange rate
- 2.4 Speculating using the forward exchange rate
- 2.5 The Interaction of Hedgers, Arbitrageurs and Speculator

Main Reading Sessions 1 and 2:

Pilbeam (F&FM) chapter 11

Pilbeam (IF) chapter 1

Supplementary: Giddy chapter 2 p.13-38

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 A Generalised Version of PPP
- 3.5 Measurement Problems in Testing for PPP
- 3.6 Empirical Evidence on PPP
- 3.7 Summary of Empirical Evidence on PPP
- 3.8 Explaining the Poor Performance of Purchasing Power Parity Theory
- 3.9 Uncovered Interest Parity
- 3.10 Conclusions

Main Reading:

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

Pilbeam (IF) chapter 6, Chapter 7 p.147-51

Supplementary: Giddy chapter 5

SESSION 4: EUROPEAN MONETARY UNION

- 4.1 Introduction
- 4.2 What is meant by Monetary Union ?
- 4.3 Benefits of European Monetary Union
- 4.4 Costs of European Monetary Union
- 4.5 A Brief History of European Monetary Union
- 4.6 The Maastricht Treaty and Convergence Criteria
- 4.7 The Growth and Stability Pact
- 4.8 The Euro as a currency
- 4.9 The Euro and the UK
- 4.10 The Euro and the new EU members
- 4.11 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 Euromarkets
- 5.6 The Characteristics of the Eurodollar Market
- 5.7 The Creation of Eurodeposits
- 5.8 The TED spread
- 5.8 Euromarkets and Currency and Country Risks
- 5.9 Euromarkets and Government Regulation and Policy
- 5.10 Conclusions

Main Reading:

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

Pilbeam (IF) chapter 12

Supplementary: Giddy chapters 3 and 10

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
- 6.4 Structure of Market
- 6.5 A Eurobond issue
- 6.6 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

Pilbeam (IF) chapter 12

Supplementary: Giddy chapter 12

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

Supplementary: Giddy chapter 12

BY MONDAY 7TH FEBRUARY BY 12 NOON 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 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

Supplementary: Giddy chapter 8

FINAL EXAMINATION

Terms and Conditions

****Attendance at all classes is mandatory.** Students missing lectures without a doctor's letter or authorisation from the Director or from the Placements' Team will automatically be docked a – or a + from their final grade. Persistent lateness will also be penalised in the final grade. A register of attendance will be taken at the beginning of each session, and marks will be awarded for attendance. Absence can be conveyed by advising a senior member of staff in the Academic Affairs Office with a request that the information be passed on to me. Leaving it to another class member to convey messages will not be acceptable. Appointments for interviews for internships should not conflict with attendance at classes. **Students must check their email and the weekly Student Newsletter for field trip updates and reminders.**

Any student who is unable to attend a class, or take part in an assignment because of religious reasons, must give notice of the fact in advance. He/she will be required to make up for time lost. In this situation arrangements must be made with another student for class notes to be shared. Course work must be delivered before agreed deadline; failure to hand in on time will result in deducted marks.

I will make some time available in each session for students to raise questions etc. Should students wish to discuss matters with me in person I will also be available during the break mid-lecture.