

## ***Mgt 424: FOREIGN EXCHANGE AND THE GLOBAL MONETARY SYSTEM***

**Professor:** David Parsley  
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### ***Overview***

This course examines financial linkages among economies, including: exchange rates, interest rates, balance of payments, currency derivatives, sovereign debt, and foreign direct investment flows. The course compliments Owen courses in international financial management, international corporate finance, and should be considered an integral part of an international emphasis.

Some of the topics we discuss include: i) arbitrage relations among (a) exchange rates of different currencies, (b) among interest rates of different countries, (c) among spot and forward exchange rates, and (d) among international goods markets; ii) Balance of Payments accounting, iii) the evolution of international payments mechanisms, and iv) the determination of exchange rates. We also address contemporary issues relating to the Asia crisis and the impact of capital flows on developing countries, and the impact of the introduction of the Euro for business and economic policy.

### ***Requirements***

Case analyses (30% of course grade). We will cover two cases during the term.

- Groups are responsible for turning in short (2-3 pg) written analyses at the beginning of class on the day the case is discussed.
- Group grades will be determined in the following manner: 70% for the 2 turned in case analyses, 30% group self evaluations.

Problem sets (30% of course grade). There are three problem sets. These are to be done independently.

Class Participation (10% of course grade).

Final Examination (30% of course grade).

### ***Textbook***

**Global Financial Markets, Ian Giddy, Heath 1994**

### ***Cases***

- 1. European Currency Crisis of 1992***
- 2. Debt-Equity Swaps***

**Management 424**  
**Foreign Exchange and the Global Monetary System**

**Class 1: (8/29/00)**

- Introduction
- What this class is *not* – an international business course (see Mgt 426), *not* a “how to”
- What this class *is* – an international finance elective, *is* a good lead into Mgt 433
- Eurocurrencies & Eurocurrency Markets

**Class 2: (8/31/00) Foreign Exchange & Eurocurrency Markets, Ch 1 & 2**

- Institutional detail
- Fx market participants
- equilibrium exchange rates

**Class 3: (9/05/00) Interest Rate Parity, Ch 3**

- The global financial market
- The two kinds of interest rate linkages
- Interest rate parity
- Forward interest rates
- Investing on a covered basis; Covered interest parity (CIP)
- Covered interest parity and market efficiency

**Class 4: (9/07/00) Why Does the Exchange Rate Matter? Ch 4**

- Pros and cons of a currency board  
<http://www.stern.nyu.edu/~nroubini/asia/CurrencyBoardIndonesiaFT298.html>
- The International Monetary System
- Optimum Currency Areas
- What should the countries of east Asia do with their exchange rate (peg/float)?  
<http://www.imf.org/external/pubs/ft/weo/weo1097/pdf/octweo04.pdf>,  
<http://woodrow.mpls.frb.fed.us/econed/essay/1-96.html>
- Problem set #1 due

**Class 5: (9/12/00) Exchange Risk and Uncovered Interest Parity (UIP), Ch 5**

- Interest rates and exchange rate expectations
- Exchange risk premia, inflation risk premia, and testing UIP
- Purchasing power parity and UIP
- Models of exchange rate expectations and exchange risk premia
- PPP per capita GDP for OECD countries: <http://www.oecd.org/std/gdpperca.htm>
- Equilibrium in foreign exchange markets? <http://www.frbsf.org/econsrch/wklyltr/el96-13.html>

*Management 424*  
*Foreign Exchange and the Global Monetary System*

***Class 6: (9/14/00) Comparing Rates of Return in Different Currencies***

- Case writeup #1 due

***Class 7: (9/19/00) The Balance of Payments Accounts***

- The accounts
- How individual transactions are recorded
- Double entry bookkeeping
- The balances
- Statistical errors in the accounts
- U.S International Accounts Data: <http://www.bea.doc.gov/bea/di1.htm>
- <http://www.britannica.com/bcom/eb/article/8/0,5716,109308+20+106323,00.html>
- What are, or will be the cumulative impacts of the US current account deficits? <http://www-hoover.stanford.edu/publications/Selections/973/krauss.html> *International Economy*, May-June 1999, 10-17.

***Class 8: (9/21/00)***

- Demand and Supply View, PPP, Modern Theories <http://www.bis.org/publ/ar98h00.htm>
- PPP and modern theories
- Central Bank Intervention
- Overshooting
- Problem set # 2 due

***Class 9: (9/26/00) The Determination of Exchange rates, Ch 6***

- Governments and Exchange Rates:
  - (a) Mundell-Fleming; (b) Central Bank Intervention
- News and exchange Rate changes
- *Class question 5*: What impact does trading have on exchange rates?  
<http://www.frbsf.org/econsrch/wklyltr/el97-38.html>

***Class 10: (9/28/00) Exchange Rate Volatility***

- Real Effects of Exchange Rates

*Management 424*  
*Foreign Exchange and the Global Monetary System*

***Class 11: (10/03/00) Currency Futures & Options, Ch 8, 10***

- The market
- How to read the Newspaper

***Class 12: (10/05/00) Currency Market Developments***

- Guest speaker
- buy and sell decisions in the fx market

***Class 13: (10/10/00) Developing Country Debt Ch 11***

- OECD Country Classification
- Debt held by International Institutions
- History & Geographic distribution
- The Paris Club

***Class 14: (10/12/00) Foreign Direct Investment, Ch 11***

- Case writeup #2 due
- Problem set # 3 due