MANCHESTER BUSINESS SCHOOL
THE UNIVERSITY OF MANCHESTER

BMAN 30060 INTERNATIONAL FINANCE
Semester One
(Prof. Massimo Guidolin)

Basic Information

E-mail:	Massimo.Guidolin@mbs.ac.uk
Office hours:	Tuesday 9:30 – 11:30 or email me.
Lecture times:	Monday, Federal Theatre 1, MBS Crawford Tuesday, Chaplaincy
Mode of assessment:	The course will be assessed 100% by a three hour unseen written examination at the end of the academic year, in May or June 2007.

Aims
The aims of the course are to familiarize students with the behaviour of international financial markets and the pricing of assets in those markets. Particular emphasis will be devoted to the understanding of the exchange rate dynamics.

References
There is no text that covers everything in the course unit. Much of the material in semester 1 is covered in texts such as:

Copeland, L. (2005) *Exchange Rates and International Finance*, 4th ed. FT Prentice Hall.

Levich, R.M. (2001) *International Financial Markets: Prices and Policies*, 2nd ed., McGraw-Hill.

Sarno, L. and M.P. Taylor (2002) *The Economics of Exchange Rates*, Cambridge University.

You will also find it beneficial to consult journals such as the *Journal of Economic Literature* (for review articles), the *Journal of International Economics,* and the *Journal of International Money and Finance*.

Teaching materials, handouts, datasets, etc. will be available from the course unit website, on Web CT. Additional announcements and discussion questions will be posted on the forum.

Calendar
A detailed list of meetings follows. Please notice that a few of the Monday meetings (highlighted with an asterisk, *) go from 5 pm to 6:20 pm. The additional 30 minutes compensate for a few Tuesday class meetings that will not be possible because of the unavailability of the Chaplaincy class room.

Week starting on	Class meetings
September 25	Monday, Tuesday
October 2	Monday* (5-6:20 pm), Tuesday

Week starting on	Class meetings
October 9	Monday* (5-6:20 pm), Tuesday
October 16	Monday* (5-6:20 pm)
October 23	Monday* (5-6:20 pm)
October 30	READING WEEK – no classes
November 6	Monday* (5-6:20 pm)
November 13	Monday* (5-6:20 pm), Tuesday
November 27	Monday
December 4	Monday, Tuesday
December 11	Monday, Tuesday

Notice that there will be no class in the week of November 20.

Syllabus

Section I : Introduction, Overview, and Basic Notions in Statistics

Topic I: The Foreign Exchange Market

Dates: September 25, 26.

Readings: Handout 1

McKinnon, R., "The Rules of the Game: International Money in Historical Perspective", *Journal of Economic Literature* 31, 1993, 1-44 (sections I-V only).

Topic II: Elements of Regression Analysis

Dates: October 2.

Readings: Handout 2

Topic III: Elements of Time Series Analysis

Dates: October 2, 3.

Readings: Handout 3

Topic IV: Elements of Non-Stationary Time Series and Cointegration

Dates: October 9.

Readings: Handout 4

Section II : Foreign Exchange Market Efficiency

Topic I : Purchasing Power Parity and the Real Exchange Rate

Dates: October 10, 16.

Readings: Handout 5

Ong, L., "Burgernomics: the Economics of the Big Mac Standard", *Journal of International Money and Finance* 16, 1993, 865-878.

Rogoff, K., "The Purchasing Power Parity Puzzle", *Journal of Economic Literature* 34, 1996, 647-668.

Topic II : Case Study – PPP Between the UK and the US

Dates: October 23

Readings: Handout 6

Topic III : Foreign Exchange Market Efficiency – Interest Rate Parities

Dates: November 6, 13

Readings: Handout 7

Engel, C., "The Forward Discount Anomaly and the Risk Premium: A Survey of Recent Evidence", *Journal of Empirical Finance* 3, 1996, 123-192.

Taylor, M., "The Economics of Exchange Rates", *Journal of Economic Literature* 33, 1995, 13-47 (sections I and II only).

Section III : Models of Exchange Rate Determination

Topic I :The Monetary Model (Flexible Prices)

Dates: November 14, 27

Readings: Handout 8

Taylor, M., "The Economics of Exchange Rates", *Journal of Economic Literature* 33, 1995, 13-47 (section III only).

Topic II : Mundell and Fleming's Model (Fixed Prices)

Dates: December 4

Readings: Handout 9

Taylor, M., "The Economics of Exchange Rates", *Journal of Economic Literature* 33, 1995, 13-47 (section III only).

Section IV : International Portfolio Diversification

Topic I :The Case for International Portfolio Diversification

Dates: December 5

Readings: Handout 10

Lewis, K., "Trying to Explain Home Bias in Equities and Consumption", *Journal of Economic Literature* 37, 1999, pp. 571-607.

Topic II : The Home Country Bias Puzzle – the Macroeconomics Literature

Dates: December 11

Readings: Handout 11

Lewis, K., "Trying to Explain Home Bias in Equities and Consumption", *Journal of Economic Literature* 37, 1999, 575-607.

Topic III : The Home Country Bias Puzzle – the Finance Literature

Dates: December 12

Readings: Handout 11

Lewis, K., "Trying to Explain Home Bias in Equities and Consumption", *Journal of Economic Literature* 37, 1999, 571-607.

Guidolin, M., and A., Timmermann, "International Asset Allocation under Regime Switching, Skew and Kurtosis Preferences", St. Louis FED working paper No. 2005-034 (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=676023)