



International Finance: Theory and Practice

K. Eleftheriou - C. Kottaridi

keleft@unipi.gr – kottarid@unipi.gr

Course Objectives

This course intends to familiarize graduate students with the theory of international finance and its applications to current policy issues. In this course, we will initially address the basic tools to understand what determines the flow of savings and investments across countries, e.g. inter-temporal trade and the current account, money and the balance of payments, the foreign exchange market and currency speculation – spot markets and forward contracts, arbitrage and international parity conditions, the purchasing power parity and the real exchange rate. We will then cover applications to a number of topics of current interest and their effects on international business strategy. These include the role of Central Banks in complicated financial environments with emphasis on response actions of the FED and ECB, current challenges that relate to bubbles, zero interest rates and the evolvement of the global financial system, while particular emphasis will be placed on financial crisis historically discussing the involvement of the IMF as well as the recent financial crisis of 2007-2009 discussing the financial architecture in the years before and the road ahead.

Modules

Wk #1: ***The Foreign Exchange Market*** – The Spot Exchange Market, the Real Exchange Rate, the Forward Exchange Market, Transactors in the Foreign Exchange Market and Speculation.

Wk #2: **International Interest-Rate Parity Conditions** – Covered Interest Arbitrage & Covered Interest Parity, Uncovered Interest Parity, Real Interest Parity, Perfect Capital Mobility, Perfect Asset Substitutability.

Wk #3: **The Balance of Payments** – Principles and Components

Wks #4-5: **The Balance of Payments** – The Adjustment Process
Exchange Rate Determination

Wk #6: *Midterm exam*

Wk #7: **Financial Intermediation – Structure and Risk** - The role of financial intermediation and the high associated risks, the market of lemons, moral hazard, information cost.

Wk#8: **Regulation of Financial System and the role of Central Banks Nowadays** - Ways to avoid or mitigate financial risk based on Central Banks' directives

Wk#9: **The Federal Reserve of the US and the European Central Bank - Monetary Policy and Stabilization** - Structure and actions of the FED and ECB, their role in the recent financial crisis – the role of the FED and ECB in stabilizing their economies.

Wk#10 **Current Challenges: Bubbles, Zero Interest Rates and the Evolvement of the Financial System - Financial Crises Historically by Country and the role of the IMF**

Wk#11: **The Recent Financial Crisis 2007-2009 - Response Actions of the FED and the ECB - Financial Crisis in Greece and Global Consequences**

Final Exam

Evaluation

Midterm Exam – 40%

Final Exam – 60%

Recommended Reading:

1. Λεβεντάκης, Ι. (2003). *Διεθνής Χρηματοοικονομική και Μακροοικονομική*. Εκδ. Σταμούλη
2. Cecchetti, S. και Schoenholtz, K. (2015). *Χρήμα, Τράπεζες και Χρηματοπιστωτικές Αγορές (επιμέλεια στα Ελληνικά Κ. Κοτταρίδη)*. Εκδόσεις Broken Hills Publishers.
3. Feenstra, R. and A. M. Taylor (2014). *International Macroeconomics*. 3rd. ed. Worth Publishers.