ADVANCED STUDIES IN INTERNATIONAL ECONOMIC POLICY RESEARCH

Kiel, August 2008 **Professor Geert Bekaert**
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Preliminary Course Outline

1. Course Description

The course will blend material from a new MBA textbook on International Financial Management (by Geert Bekaert and Robert J. Hodrick, Prentice Hall, 2008); material from a Columbia Business School MBA class on Global Portfolio Management and recent academic research.
The course discusses international financial markets and instruments including currency markets; international diversification and optimal asset allocation. One theme I will return to throughout the class is the globalization phenomenon and its effects on markets, asset allocation and the real economy. Although the course may overlap somewhat with the course on "Macroeconomics in Open Economies," the perspective taken here is distinctly that of a financial economist.

2. Outline

Session 1:

- Globalization and its Effects on the Economy.
- The Case for International Diversification

Relevant Book Chapters: Chapter 1, Chapter 13 (sections 1 through 3).

Academic Articles: Bekaert, Geert; Harvey, Campbell R. and Lundblad, Christian: Does Financial Liberalization Spur Growth, Journal of Financial Economics, 2005.

Session 2:

- Global Asset allocation
- Review Mean Variance Optimization

- CAPM
- Home Bias

Relevant Book Chapters: Chapter 13 (sections 4 through 8).

Academic articles: Bekaert, Geert and Wang, Xiaozheng; Home Bias revisited (currently under preparation).

Case study to prepare for Session 3: Optimal Currency Hedging using an Excel Optimizer

Session 3:

- Currencies
- Optimal currency hedging

Relevant Book chapters: Chapters 2, 3, 6, 7, and 10.

Articles: Greene, Philip, "Is Currency Trading Profitable? Exploiting Deviations from Uncovered Interest Rate Parity," *Financial Analysts Journal*, July-August 1992.

Case study to prepare for Session 4: Turmoil in Mexico

Session 4:

- A note on Political Risk
- International Financial Markets.
- Emerging Markets

Relevant Book Chapters: Chapters 11, 12, 14

Articles: Geert Bekaert and Campbell R. Harvey, Emerging Markets Finance, *Journal of Empirical Finance*, 2003.
http://www-1.gsb.columbia.edu/faculty/gbekaert/

Case study to prepare for Session 5: Diversification using Emerging Markets

Session 5:

- Financial Market Integration and Asset Prices.
- Contagion

Relevant Book Chapters: Chapters 1, 13.
Articles:
Bekaert, Geert; Robert J. Hodrick, Xiaoyan Zhang; International Stock Return Comovements.
Bekaert, Geert, Campbell R. Harvey, Christian Lundblad, Stephan Siegel; What segments equity markets.

3. Course Material

- Teaching Notes. Each class is accompanied by a set of teaching notes, which basically represents the PowerPoint slides used in class. Students with weak finance backgrounds are encouraged to read the teaching notes in advance. Note that the notes are often set-up "interactively", that is, they may contain discussion questions, for which the answer is NOT provided in the note. A teaching note may also contain a number of Appendices, which typically provide background material to the concepts discussed, often of a technical nature. We may go over some of that material in class, but will sometimes skip it entirely. Some of the teaching notes are more detailed than what we will be able to cover in class.

- Packet of readings and cases/homework. Most of the academic readings are suggested rather than required. I will provide copies of the cases and homework assignments.

- Textbook: I am currently finalizing a textbook on "International Financial Management" with my colleague Bob Hodrick from Columbia University. The book will be available by this Summer from Prentice Hall and Amazon.

- Optimizer: I will make available an Excel based mean variance optimizer that will be used in a few cases. In Session 2, I will review the basic theoretical underpinnings for mean variance asset allocation.