International Summer School – KIMEP 2011

ECN4351 / ECN5890 Special topics in Economics:
Foreign Exchange Markets and Financial Institutions in Emerging Economies

Instructor Information
Name: Dr. Sheikh Selim
Affiliation: Cardiff Business School, Cardiff University, UK
Email: selimsT@cardiff.ac.uk
Homepage: http://www.cf.ac.uk/carbs/econ/selimst/

Course Description

This course is an advanced course for both Economics and Finance major students (and others) who are interested in pursuing careers in international economics, currency trading, global banking, global asset management, multinational corporate finance or risk management industry. As is suggested by the title, this course will focus on some very important issues related to contemporary foreign exchange markets and financial institutions with special emphasis on emerging economies.

The contents and the method of delivery of this course is mainly designed to contribute to the knowledge and understandings of the advanced level undergraduate students, the MSc/MA students and the professionals in this field. Doctoral students who have interest in learning and applying the fundamental ideas of international finance in their research will also benefit from this course.

After completing this course, students should be able to:

(a) Understand and appreciate the main analytical models of exchange rate determination and exchange rate adjustments;
(b) Understand how international capital markets work;
(c) Explain the concepts of international parity relations, such as uncovered interest parity and purchasing power parity;
(d) Explain the differences between the operations of foreign exchange spot and forward markets;
(e) Understand the fundamental theories of current account determination;
(f) Relate the existing theories and apply the theoretical findings to the context of emerging economies and economies subject to financial crises;
(g) Understand how to formulate independent and innovative ideas for research in the broad field of International Finance.
The method of teaching is standard lectures with the support of handouts. The lecture handouts will be distributed either prior to the lectures or at the start of a lecture. I will make use of a combination of mathematics, intuitive examples and diagrams as the main tool for discussions and instruction.

The course will be taught in two parts. In part 1 I will discuss the core theories related to international finance, exchange rate determination and the current account. These involve detailed discussions on the first and other generation models of exchange rate determination, theories of current account determination, capital market integration, optimum currency area and discussions on the role of financial institutions. In part 2 the main discussion will be on the application of theoretical findings, ideas and principles of international finance to the context of emerging economies and economies that are subject to financial crises.

For this course I recommend two textbooks:


My handouts are necessary but not sufficient. Also, these handouts are not substitutes for the textbooks; rather, the textbooks and my handouts are complements. So in short, my recommendation is that for optimal learning a representative student should use a combination of the lecture handouts, lectures, the textbooks and any other source that I suggest during the lectures.

**Assessments**

There are two forms of assessment in this course, each weighted equally. The first form is an assignment (a set of problems) which I will give during the 20th hour of lectures. The other form is a 2 hour exam at the end of teaching.

It is important that both forms of assessments are taken and completed seriously. The performance in these assessments will determine the level and the depth of learning of a student.

**Reading List by Topics**

**Part 1**
*(The theory of exchange rate and international financial institutions).*

   *(LC) Ch. 1.*
2. Uncovered Interest Parity and Purchasing Power Parity.
   (LC) Ch. 2, 3; (KO) Ch. 13, 14, 15.

3. Models of Exchange Rate Determination.
   (LC) Ch. 5, 6, 7.

4. The theory of Current Account Determination.
   (KO) Ch. 16.

5. The theory of Foreign Exchange Intervention.
   (KO) Ch. 17.

6. Monetary policy, capital market integration and Coordination (with special reference to the EU).
   (LC) Ch. 11, (KO) Ch. 19, 20, 21.

Part 2
(International finance in emerging economies and the global financial crisis).

7. The political economy of international trade.
   (KO) Ch. 9.

8. International finance and trade in emerging economies.
   (KO) Ch. 10.

9. Growth, crisis and reforms in emerging economies.
   (KO) Ch. 22.

    