1 Course Description

The course provides an introduction to international finance, spanning from the classic puzzles to current research. It is designed for Ph.D. students in their second year or later, and provides an overview of theory and empirical tools for conducting own research in this field. We will study two overarching themes: Exchange rate dynamics and international risk sharing. Specific topics include: foreign-exchange market efficiency, information heterogeneity, pricing-to-market, microstructure of the foreign exchange markets, home bias, financial integration and international portfolio choice.

2 Course Requirements

2.1 Homework

There will be approximately three homeworks covering primarily empirical issues. Each student will once be asked to present homework results and difficulties (or tricks) in solving the homework, which we then discuss together.

2.2 Referee Report and In-Class Discussions

Each student will discuss two papers in class. Whereas the first of these discussions (max. 30 minutes) can be more like a paper summary, the second presentation should be a 15-minute conference-style discussion. The emphasis of
the second presentation should be on the strengths and weaknesses of the paper. One day before the second presentation, the presenter should prepare an approx. three-page referee report, which we will read in preparation.

A list of paper suggestions will be available on Blackboard. Papers are assigned on a first-come first-served basis. Ideally, the paper you present is closely related to your intended research proposal.

2.3 Research Proposal

The research proposal should suggest an empirical project within the field of international finance. It should

1. clearly describe the research idea,
2. contain a literature survey, that explains where your research fits in,
3. a detailed description of the model and of the empirical approach to be used,
4. own preliminary empirical results,
5. a discussion of their limitations, and a detailed description of the next steps.

2.4 Grading

30% Homework
30% Referee report and two in-class discussions
40% Research proposal (draft due March 31st, final proposal due April 30th, 2014)

3 Recommended Books

Currently no graduate textbook on the market provides a balanced presentation of the current state of research in international finance. The course therefore builds on a collection of research papers. However, I will refer you to sections of the books by Evans and Mark along the way.

3.1 International Macroeconomics and Finance

These three books contain nice summaries of some of the course topics and useful practice problems. The books by Evans and Mark are required for this course.


3.2 Empirical Methods

These two books cover in detail some of the empirical methods that we will encounter during this course. Whereas these books are not required, I strongly recommend you examining them at some point. They will be a useful first reference when you start your empirical work.


Course Topics and Reading List

Core readings are marked with an asterisk (∗).

A  Exchange Rate Dynamics

A.1  Basic Models and Tools

A.1.1  Lucas Model


A.1.2  No-Arbitrage Relationships


A.2  Puzzles and Empirical Challenges

A.2.1  Exchange Rate Forecasting and “Puzzles”


A.2.2 Empirical Challenges


A.3 Macro-Based Models

A.3.1 Classic


A.3.2 Recent


A.4 Microfoundations and Studies based on Disaggregated Data


A.5 The Microstructure of the Foreign Exchange Market and Order Flow

A.5.1 Macroeconomic News and High-Frequency Exchange Rates


A.5.2 Order Flow and Exchange Rates


B International Financial Integration

B.1 International Cost of Capital


B.2 Capital Flows and Risk Sharing


B.3 International Portfolio Choice


