

# The Global Economy

## Course Details

Course Designator & Number: ARGN 4621

Number of Credits: 3

Language of Instruction: English

Contact Hours: 3

Instructor: Carlos Newland, Dr. Litt. Leiden, [carlosnewland@gmail.com](mailto:carlosnewland@gmail.com).

## Course Description

This course provides an in-depth understanding of international finance. Macro and micro views are discussed, combining issues for policymakers, managers of multinational corporations, and international investors. The course also provides insight in issues relating to emerging markets finance.

## Course Objectives

The course aims to provide students with an understanding of

- The relationship between macro-economic policy, major financial data, and the real economy
- International money flows and its main drivers, including the impact of international trade, foreign investment, and international funding.
- The history of foreign exchange rates and their importance in international financial markets
- History, development, and current role of the (international) banking system and international financial markets
- The role of supervisors and market participants in financial markets.
- Issues that investors face when dealing with emerging markets

- Problems of emerging markets operating in international financial markets and strategies applied to cope with such issues.
- Risks and risk management in international financial markets.

## Methodology

Lectures, discussions, and writing assignments.

## Required Reading / Materials

- Beim, David O. & Calomiris, Charles W. Emerging Financial Markets, International edition, 2001.
- Pibeam, Keith. International Finance. Third edition
- Eswar S. Prasad, Kenneth Rogoff, Shang-Jin Wei, M. Ayhan Kose, Effects of financial globalization on developing countries: some empirical evidence IMF, Occasional Paper, 2003.
- Meghana Ayyagari, Asli Demirguc-Kunt, Vojislav Maksimovic Financing of firms in developing countries - lessons from research, The World Bank, Policy Research Working Paper, April 2012.
- Stijn Claessens, Simeon Djankov, Daniela Klingebiel Stock Markets in Transition Economies The World Bank, September 2000.
- Ibrahim M. Rihan,  
[https://www.academia.edu/29463405/The\\_Great\\_Recession\\_and\\_2007-\\_2008\\_Economic\\_Crisis\\_-\\_Definition\\_Start\\_Causes\\_Effects\\_and\\_Responses](https://www.academia.edu/29463405/The_Great_Recession_and_2007-_2008_Economic_Crisis_-_Definition_Start_Causes_Effects_and_Responses)
- CEPAL: [http://repositorio.cepal.org/bitstream/handle/11362/40745/1/S1600895\\_en.pdf](http://repositorio.cepal.org/bitstream/handle/11362/40745/1/S1600895_en.pdf)
- IMF: <http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/c4.pdf>
- World Bank  
<http://documents.worldbank.org/curated/en/955811467986333727/pdf/99100-PUB-R-EVISEDBox393195B-OUO-9-until-9-14-15.pdf>
- HALE: Hale, David, "The Importance of Emerging Markets," CFA Institute Conference Proceedings Quarterly, (Sep 2012): 43–50  
<http://www.cfapubs.org/doi/full/10.2469/cp.v29.n3.8?src=recsys>
- World Bank, Long Term Finance.  
<http://documents.worldbank.org/curated/en/955811467986333727/pdf/99100-PUB-REVISED-Box393195B-OUO-9-until-9-14-15.pdf>
- WTO, World Trade Report 2013, Factors shaping the future of world trade  
[https://www.wto.org/english/res\\_e/booksp\\_e/world\\_trade\\_report13\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_trade_report13_e.pdf)
- WTO, World Trade Report 2008  
[https://www.wto.org/ENGLISH/res\\_e/booksp\\_e/anrep\\_e/wtr08-2b\\_e.pdf](https://www.wto.org/ENGLISH/res_e/booksp_e/anrep_e/wtr08-2b_e.pdf)
- M. Anaam Hashm "A Critical Analysis of Mercosur Countries' Trade Relationships with the United States and China" International Business Research; Vol. 10, No. 1; 2017  
<http://www.ccsenet.org/journal/index.php/ibr/article/viewFile/65295/35232>
- Werner Baer and Peri Silva (2012) "Mercosul: its successes and failures during its first two decades," in <http://www20.iadb.org/intal/catalogo/PE/2012/07055a15.pdf>

# Grading

## Grading Rubric

Letter Grade	Score or Percentage	Description
A	93–100	Achievement that is outstanding relative to the level necessary to meet course requirements.
A-	90–92	Achievement that is significantly above the level necessary to meet course requirements.
B+	87–89	
B	83–86	
B-	80–82	Achievement that meets the course requirements in every respect.
C+	77–79	
C	73–76	
C-	70–72	Achievement that is worthy of credit even though it fails to fully meet the course requirements.
D+	67–69	
D	60–66	
F	0–59	Represents failure (or no credit) and signifies that the work was either (1) completed but at a level of achievement that is not worthy of credit or (2) was not completed and there was no agreement between the instructor and the student that the student would be awarded an I.

## Summary of How Grades Are Weighted

<b>Assignments</b>	<b>Percentage of Grade</b>
Participation in class	15%
Group assignment	15%
Midterm exam	30%
Final exam	40%
<b>Overall grade</b>	<b>100%</b>

# Course Content

## Unit 1

### Introduction to International Finance

- Economic activity in an international context. The competitive advantage of nations and the rise of multinational companies.
- The challenges that governments, corporations, and other institutions face as participants in an international financial market.
- The role of banks in financial markets. The history and development of the international banking system

### The global economy

- International trade and its influence on government financing and other macro-economic factors.
- The relationship between current accounts, trade balances, and currency imbalances
- Globalization and the integration of international financial markets
- The different options that allow corporations to operate internationally

## Unit 2

### Exchange rates

- The history of exchange rate mechanisms: the gold standard, Bretton Woods.
- Different exchange rate regimes and their implications.
- The price mechanism in foreign exchange markets, arbitrage opportunities, and factors that influence exchange rates.
- International institutions, their role and development: IMF, Worldbank, Bank of International Settlement, development banks.
- The role of the US dollar as reference and reserve currency
- Changes in exchange rate regimes in Argentina in recent history; its causes and effects:
  - Peg to the dollar
  - Managed floating rate
  - Non-convertibility

## Unit 3: Policymakers & Market Mechanisms

### The influence of economic policy

- The impact of exchange rates, interest rates, and inflation rates on the real economy in an international setting.
- The relationship between exchange rates, interest rates and inflation rates: interest rate parities and the purchasing power parity.

- Free markets and regulation:
  - The price mechanism in markets and the impact of liberalization.
  - The effect of trade barriers and import & export tariffs.
  - Import and export barriers in Argentina: their use and effects.
  - Foreign (direct) investments in emerging markets: benefits and risks
  - The difference between emerging and developed markets
  - Emerging markets and their dependence on commodities

## **Government financing & central banks**

- Financing options for governments and their implications.
- The role of central banks in economic policy and financial market monitoring
- The different policy instruments of central banks.
- The issue of central bank independence.
- Differences of independence of central banks: a comparison of developed and emerging markets.

## **Unit 4: International Financial Markets and Their Participants**

### **Commercial & investment banks**

- The role and functioning of commercial and investment banks.
- Bank loans, capital requirements and the disintermediation in financial markets
- The interbank market: its role and importance.

### **International financial markets**

- An overview of capital market and money market products.
- Different funding alternatives for corporations.
- The role, development, and operations of international equity, debt, and money markets.
- Institutions in international financial markets: the role of stock exchanges and settlement agencies
- The monitoring of financial markets.
- Investors, traders, and arbitrageurs.
- The role of hedge funds.
- The development of financial markets in emerging markets
- Volatility and liquidity in emerging markets.

## **Unit 5**

### **Investing in Emerging Markets**

- Emerging markets as a separate asset class
- Differences between developed and emerging markets regarding financing and investment.
- Liquidity in emerging markets.

- The availability and quality of information in emerging markets.
- Differences in infrastructure between developed and emerging markets.
- Corporate governance and regulation in emerging markets.
- Opportunities when investing in emerging markets.

## Unit 6: Financial Risk Management in International Markets

### Risks in financial markets

- A comparison of financial market risks in developed and emerging markets.
  - Volatility
  - Market risk
  - Interest rate risk
  - Foreign exchange risk (incl. devaluation risk, convertibility risk)
  - Liquidity risk
  - Systemic risk
  - Contagion risk
  - Country risk
  - Sovereign risk
  - Political and regulatory risk
  - Transfer risk
  - Economic risk

### Risk management in an international context

- Derivatives markets, their development, and the benefits, risks, and uses of derivatives
- Foreign exchange risk; managing transaction, translation, and economic exposure.
- Asset liability management
- Diversification and contagion in international markets.

## Unit 7

### Other issues in emerging markets finance

- Privatizations and nationalizations
- Economic growth and economic welfare
- Micro-financing.

## Unit 8

### International Financial Crises

- The causes and effects of international crises and their impact on international capital flows.
- Indebtedness of governments and debt forgiveness.

# Policies

## Attendance Policy

Students are expected to be on time and attend all classes while abroad. Many instructors assess both attendance and participation when assigning a final course grade. Attendance alone does not guarantee a positive participation grade; the student should be prepared for class and engage in class discussion. See the on-site syllabus for specific class requirements.

## University of Minnesota Policies & Procedures

Academic integrity is essential to a positive teaching and learning environment. All students enrolled in University courses are expected to complete coursework responsibilities with fairness and honesty. Failure to do so by seeking unfair advantage over others or misrepresenting someone else's work as your own can result in disciplinary action. The University Student Conduct Code defines scholastic dishonesty as follows:

### Scholastic Dishonesty

Scholastic dishonesty means plagiarizing; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; altering forging, or misusing a University academic record; or fabricating or falsifying data, research procedures, or data analysis.

Within this course, a student responsible for scholastic dishonesty can be assigned a penalty up to and including an "F" or "N" for the course. If you have any questions regarding the expectations for a specific assignment or exam, ask.

### Student Conduct

The University of Minnesota has specific policies concerning student conduct. This information can be found [on the Learning Abroad Center website](#).