



# Advanced Topics in Finance: Part I

Course Outline: Fall Term 2022

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## Contact Information

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## Course Description

The aim of this module is to provide both a thorough foundation of the key concepts and a solid understanding of selected topics in international finance. The first part of the module begins with an overview of the institutional characteristics of the foreign exchange market and proceeds to examine the fundamental determinants of exchange-rate dynamics. The second part of the module reviews the theoretical models and the empirical evidence regarding exchange-rate behaviour and examines the implications of these results for exchange rate forecasting, international diversification and investment decisions. The final part of the module assesses the current frontier of research in selected areas of international finance and prepares students for different career paths.

## Suggested Textbook

Bekaert, G. and R.J. Hodrick (2015). *International Financial Management*. New Jersey: Pearson Education.

## Topic 1: Foreign Exchange Market Structure

- [Handout 1 \(Problem Set & Solution 1\)](#).
- Bekaert and Hodrick, Chapters 2 & 3.
- King, M.R., C. Osler and D. Rime (2012). “[Foreign Exchange Market Structure, Players and Evolution](#),” in James, Marsh and Sarno (eds.), *Handbook of Exchange Rates*, Wiley.
- Schrimpf, A. and V. Sushko (2019). “[Sizing Up Global Foreign Exchange Markets](#),” *BIS Quarterly Review*, December 21–38.



## Topic 2: Currency Mispricing and FX Market Efficiency

- [Handout 2 \(Problem Set & Solution 2\)](#)
- Bekaert and Hodrick, Chapters 6 & 7.
- Akram, Q.F., D. Rime, and L. Sarno (2008). “[Arbitrage in the Foreign Exchange Market: Turning on the Microscope](#),” *Journal of International Economics*, **76**, 237-253.
- Du, W., A. Tepper, and A. Verdelhan (2018). “[Deviations from Covered Interest Rate Parity](#),” *Journal of Finance*, **73**, 915–957.

## Topic 3: Real Exchange Rate and Purchasing Power Parity

- [Handout 3 \(Problem Set & Solution 3\)](#).
- Bekaert and Hodrick, Chapters 8 & 9.
- Taylor, A.M. and M.P. Taylor (2004), “[The Purchasing Power Parity Debate](#),” *Journal of Economic Perspectives*, **18**, 135-158.

## Topic 4: Exchange Rate Predictability

- [Handout 4 \(Problem Set & Solution 4\)](#).
- Bekaert and Hodrick, Chapter 10.
- Brunnermeier, M.K., S. Nagel, and L.H. Pedersen (2009). “[Carry Trades and Currency Crashes](#),” *NBER Macroeconomics Annual 2008*, 313–347.
- ★ Kremens, L. and I. Martin (2019). “[The Quanto Theory of Exchange Rates](#),” *American Economic Review*, **109**, 810-843.

## Topic 5: Currency Investment Strategies

- [Handout 5 \(Problem Set & Solution 5\)](#).
- Della Corte, P., S.J. Riddiough and L. Sarno (2016). “[Currency Premia and Global Imbalances](#),” *Review of Financial Studies*, **29**, 2161–2193.
- ★ Lustig, H., N. Roussanov and A. Verdelhan (2011). “[Common Risk Factors in Currency Markets](#),” *Review of Financial Studies*, **24**, 3731–3777.