

**Universitat Ramon Llull (Barcelona)**  
**IQS School of Business**  
**Nexus Barcelona-Paris**  
Summer 2009

Course Number: **RLFN-312**

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| <p><b>International Financial Markets:<br/>Understanding the Global Crisis</b></p> |
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**Course Syllabus**

- **Course Description**

This course offers a broad introduction to the workings of the global financial system, the dynamics of the main financial markets, the nature and goals of the key financial institutions and the crucial role played by central banks and regulatory agencies. An important part of the course focuses on the 2007-2009 global economic and financial crisis, reviewing its causes and consequences, as well as evaluating the merits of the numerous government intervention schemes in the U.S. and Europe. The course ends with an assessment of the dramatic changes taking place in the global financial architecture as a result of the crisis.

- **Textbooks**

"An Introduction to Global Financial Markets", by Stephen Valdez,  
Palgrave Macmillan, 5<sup>th</sup> Edition, 2006

"Fixing Global Finance", by Martin Wolf  
Yale University Press, 2009

Plus supplementary articles and case-studies to be distributed by the instructor.

- **Professional Visits**

Students will be required to participate in 10 professional visits to corporations, financial institutions and international organizations.

- **Contact Hours**

|                         |    |
|-------------------------|----|
| In the classroom:       | 48 |
| In professional visits: | 30 |
| Total:                  | 78 |

- **Grading Scale**

|                    |                     |
|--------------------|---------------------|
| <b>High to Low</b> | <b>Letter Grade</b> |
|--------------------|---------------------|

|                |   |    |
|----------------|---|----|
| 100 - 94       | = | A  |
| 93 - 89        | = | A- |
| 88 - 85        | = | B+ |
| 84 - 82        | = | B  |
| 81 - 78        | = | B- |
| 77 - 74        | = | C+ |
| 73 - 70        | = | C  |
| 69 - And below | = | F  |

- **Components of Final Grade**

|     |                     |
|-----|---------------------|
| 35% | Midterm Exam        |
| 35% | Final Exam          |
| 10% | Team Project        |
| 10% | Case Studies        |
| 10% | Class Participation |

- **Tentative Outline**

**Week 1:**

- How financial markets work
- The purpose of global finance
- Lenders, borrowers, securities
- Raising capital
- Bank loans
- Bonds
- Equity
- Leverage
- History of banking
- Banking regulation
- The creation of credit
- Capital ratio
- The Basel Committee
- The European Union's banking directives
- Major European banks

**The 2008-2009 Global Crisis: Part 1**

- Profiles: Alan Greenspan, Henry Paulson, Ben Bernanke, Tim Geithner
- Sub-prime lending
- The "housing bubble"
- Mortgage lending and mortgage securitization
- Collateralized debt obligations (CDO's)
- Credit default swaps (CDS's)
- The freezing of credit markets
- The collapsing property prices
- The collapsing equity prices
- The collapse in economic activity worldwide
- The demise of large financial institutions

- The demise of large non-financial institutions

## **Week 2:**

- Central bank activities
- The Federal Reserve
- The European Central Bank
- The Bank of England
- Commercial banking
- Wholesale banking
- Investment banking
- The money and bond markets
- Interest rate determination
- The yield curve
- Credit rating
- Different types of bonds
- The Eurobond market

## **The 2008-2009 Global Crisis: Part 2**

- The implications of deleveraging
- The "shadow" banking system
- "Pyramid of promises"
- Importance of trust and property rights
- Banking crisis + currency crisis= the "twin crisis"
- The vulnerable Southern European economies ("P.I.G.S.")
- UK, Switzerland and others outside the Eurozone
- West Balkans, Baltics, Iceland: the value of stability during crisis
- Debt levels in Eastern Europe
- Carry trade unwinding: borrowing in Switzerland, investing in Hungary
- UK and currency devaluations: the falling pound.

## **Week 3:**

- Stock exchanges
- The New York Stock Exchange, NASDAQ
- Tokyo Stock Exchange
- London Stock Exchange, Deutsche Börse
- Euronext, Borsa Italiana
- Bolsa de Barcelona, Athens Stock Exchange
- Hedge Funds, private Equity
- Leverage and short selling

## **The 2008-2009 Global Crisis: Part 3**

- JPMorgan Chase's acquisition of Bear Sterns
- the US government take-overs of Fannie Mae, Freddie Mac and, effectively, AIG
- the approval of TARP
- the SEC's ban on the short-selling of certain securities
- the joint action of a number of central banks in different countries to lower interest rates
- the Obama stimulus plan
- the stimulus plan in other countries

- How to pay for the stimulus plans
- Balanced budget constraints
- the Geithner banking rescue plan
- the rescue of the big automotive companies
- the impact on China
- the impact on Mexico
- the impact on Brazil
- the impact on Russia
- the impact on oil prices and other commodity prices
- the impact on gold prices

#### **Week 4:**

- Foreign exchange
- Exchange rate determination
- Fixed and floating rates
- Arbitrage
- The balance of payments: current account vs. capital account
- Understanding the U.S. balance of payments
- U.S. borrowing in own currency: a unique position
- Global imbalances, the savings glut
- US as "borrower of last resort"
- Fragility of international finance: borrowing in hard currency
- Bretton Woods
- The International Monetary Fund
- The World Bank
- Trade finance
- The European Economic and Monetary Union
- The ups and downs of the Euro
- The future of the Euro
- Derivatives
- Traded options
- Financial futures
- Hedgers vs. speculators
- Swaps

#### **The 2008-2009 Global Crisis: Part 4**

- The weakness of the Euro
- International "reserve" currency: dollar vs. Euro
- Optimal currency union
- Competitive devaluations: "beggar thy neighbor"
- Comparisons with other major crisis of the past
- The Great Depression
- The 1987 stock market crash
- The bursting of the "dot com" bubble
- The collapse of Enron and WorldCom
- Japan's "lost decade"
- Regulatory and policy responses needed to avoid a similar crisis in the future
- The coming major overhaul of financial regulation
- The need for closer cross-country coordination
- The most likely characteristics of the post-crisis global financial architecture

- **Schedule of Classes:**

|         |                   |              |
|---------|-------------------|--------------|
| July 2  | 3:30 pm - 5:55 pm |              |
| July 3  | 8:30 am -10:55 am |              |
| July 4  | 8:30 am -10:55 am |              |
| July 6  | 8:30 am -10:55 am |              |
| July 7  | 8:30 am -10:55 am |              |
| July 8  | 8:30 am -10:55 am |              |
| July 9  | 1:30 pm - 3:55 pm |              |
| July 10 | 8:30 am -10:55 am |              |
| July 13 | 8:30 am -10:55 am |              |
| July 15 | 8:30 am -10:55 am | Midterm Exam |
| July 16 | 1:30 pm - 3:55 pm |              |
| July 17 | 8:30 am -10:55 am |              |
| July 20 | 8:30 am -10:55 am |              |
| July 21 | 8:30 am -10:55 am |              |
| July 22 | 8:30 am -10:55 am |              |
| July 23 | 8:30 am -10:55 am |              |
| July 24 | 8:30 am -10:55 am |              |
| July 27 | 8:30 am -10:55 am |              |
| July 28 | 8:30 am -10:55 am |              |
| July 29 | 8:30 am -10:55 am | Final Exam   |