

FX Markets and Exchange Rate Determination

Module		FX Markets and Exchange Rate Determination					
Module Code		ECO60150					
Module Coordinator		Schmidt, Paul G.					
Last Update		2015/12/17					
Target Group		Programme(s)			Bachelor of Science		
		Term			6th semester		
		Compulsory/Elective Module			Elective Module		
		Module Duration			1 Semester		
		Credits:			6		
		Frequency			Annually		
		Language of instruction			English		
Workload:	150 h	Contact hours:	44 h	Independent Learning:	66 h	Assignments:	40 h
Prerequisites		Finance (EN) (FIN40020)					
Usability in other Modules/Programmes		Bachelor Thesis (BSc_BT)					

Intended Learning Outcomes	<p>Knowledge: On successful completion of this module, students will have a thorough comprehension of the institutional conditions, targets, strategies and instruments of domestic exchange rate policies, i.e. they can</p> <ul style="list-style-type: none"> • describe FX markets, FX market instruments and FX instruments <p><!-- --></p> <ul style="list-style-type: none"> • about the world financial architecture, • explain recent actual exchange rate developments and exchange rate arrangements and monetary regimes from a cross-national perspective. <p>Skills: On successful completion of this module, the students will have the proven ability to</p> <p><!-- --></p> <ul style="list-style-type: none"> • apply theoretical concepts and analytical tools in assessing <p><!-- --></p> <ul style="list-style-type: none"> • major trends in foreign exchange rate developments, • analyse the likelihood of balance of payments crises, • assess the impact of such crises on financial markets and the real sector of the economy. <p>Competencies: After finishing this module students will be able to</p> <ul style="list-style-type: none"> • assess the major determinants of changes of foreign exchange rates • draw up the causes of balance of payments crises, • rate the major causes of foreign exchange rate changes, and currency turbulences, • draw up the predictions of early warning systems on currency turbulences.
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Module Overview

- 1. The Balance of Payments in National Accounting**
 - 1.1 Concept, structure and settlement of the balance of payments
 - 1.2 Balance of payments and international investment position
 - 1.3 Current account balance, saving and investment
 - 1.4 Current account balance and net foreign assets
 - 1.5 Balance payments and domestic money supply
- 2. Foreign Exchange Markets and FX Transactions**
 - 2.1 Supply, demand and players on FX markets
 - 2.2 Strategies and foreign exchange markets instruments
 - 2.3 Pricing on the spot market and forward market
 - 2.4 Exchange rate regimes
- 3. Exchange Rate Regimes in Theory and Practice**
 - 3.1 The classical gold standard
 - 3.2 The currency chaos during the inter-war years
 - 3.3 The system of Bretton Woods
 - 3.4 The non-system of managed floating
 - 3.5 Currency boards
 - 3.6 Dollarization and Euroization
- 4. Determinants of Foreign Exchange Rate Dynamics**
 - 4.1 Nominal, real and effective exchange rates
 - 4.2 Absolute and relative theory of purchasing power parity
 - 4.3 Incomes theory of foreign exchange rate determination
 - 4.4 Interest rate arbitrage and interest rate parity theory
 - 4.5 Portfolio theory - the Branson model
 - 4.6 Monetary theory - the Dornbusch model
 - 4.7 Rational expectations, news and risk premiums
 - 4.8 Rational speculative bubbles
 - 4.9 Non-rational expectations
- 5. Currency Turbulences & Balance of Payments Crises**
 - 5.1 Explanatory approaches
 - 5.2 Empirical Evidence in cross-national perspective
 - 5.3 Early warning systems

Module overview:

The module presents an introduction to the theory and practice of exchange rate determination and exchange rate policies under different monetary and exchange rate regimes. Students learn to understand how foreign exchange markets function under different exchange rate arrangements and which factors have an impact on foreign exchange rate determination over different time horizons. In the last chapter explanatory approaches and empirical evidence on the determinants of currency turbulences and balance of payments crises are presented and applied to the construction of early warning systems.

In the final part of the module small teams of students give presentations on selected policy-oriented topics which include:

- The Gold Standard in Theory, History & Practice
- The Currency Chaos of the 1930s: Lessons for Today
- Causes & Consequences of the US Current Account Deficit
- Managed Floating & Reserve Accumulation: China, Russia, India
- Causes & Propagation of Financial Crises: Argentina, Turkey, Russia

	<ul style="list-style-type: none"> • The Role of the International Monetary Fund in Recent Financial Crises • Tobin Tax & Beyond: Taxation of Financial Transactions • Reform of the World Financial Architecture • 																
Forms of teaching, methods and support	The in-class time is divided into approximately 70% lectures with discussions and 30% team presentations by students on selected case studies.																
Type of Assessment in the Module and Performance Points	<table border="1" data-bbox="480 678 1378 969"> <thead> <tr> <th>Type of examination</th> <th>Duration or length</th> <th>Performance points</th> <th>Due date or date of exam</th> </tr> </thead> <tbody> <tr> <td>Team presentations</td> <td>30 minutes</td> <td>50</td> <td>During semester</td> </tr> <tr> <td>Classroom discussion</td> <td></td> <td>10</td> <td>During semester</td> </tr> <tr> <td>Written exam</td> <td>60 minutes</td> <td>60</td> <td>End of semester</td> </tr> </tbody> </table> <p>Examination requirements: Approved aids: bi-lingual dictionary & mathematical notation to the script.</p>	Type of examination	Duration or length	Performance points	Due date or date of exam	Team presentations	30 minutes	50	During semester	Classroom discussion		10	During semester	Written exam	60 minutes	60	End of semester
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Written exam	60 minutes	60	End of semester														
Recommended Literature	<ul style="list-style-type: none"> • Eun, Cheol S. / Resnick, Bruce G. (2007), <i>International Financial Management</i>, fourth edition, Boston et al. (McGraw-Hill Irwin) • Krugman, Paul R. / Obstfeld, Maurice / Melitz, Marc J. (2012), <i>International Economics. Theory and Policy</i>, ninth edition, Boston et al. (Pearson) • Schmidt, Paul G. (2013), <i>International Monetary Relations and Currency Crises</i>, script, Frankfurt/Main (Frankfurt School of Finance & Management) <p>A list of recommended introductory literature for presentation topics will be published at the beginning of the term.</p>																