

## BUSINESS 454

### Global Capital Markets Spring Semester 2008

- INSTRUCTOR: Deborah N. Pittman  
OFFICE: 322 Buckman Hall  
PHONE: 843-3405 (office)  
767-1920 (home)  
OFFICE HOURS: 2:00 – 4:00 Tuesday and Thursday  
Other times by appointment
- REQUIRED TEXTS: *International Financial Management*, Madura, 9<sup>th</sup> Edition  
*All About Derivatives*, Michael Durbin
- OTHER READINGS: On reserve in the library or placed in folder
- REQUIRED: Financial calculator
- REQUIRED: Daily reading of Wall Street Journal

#### Course Objectives:

By the end of the course, my goal for this class is that you will:

- Understand the theoretical connections between interest rates, foreign exchange rates, and inflation
- Understand various theories on how exchange rates are determined in the marketplace
- Understand various theories of interest rate determination in the marketplace
- Understand nature, risk and pricing of option, futures, and forward contracts in general
- Understand asset liability management in commercial banking, including VAR analysis
- Be familiar with a variety of fixed income securities including: money market instruments, conventional and indexed bonds, securitized bonds such as CDO's, CLO's, CMO's.
- Be familiar with specific derivatives contracts that relate to fixed income securities including: credit swaps, interest rate swaps, credit default swaps.

#### Grading:

The grading scale is as follows:

- 97-100 A+  
93-96 A  
90-92 A-  
87-89 B+  
83-86 B  
80-82 B-  
77-79 C+  
73-76 C  
70-72 C-  
67-69 D+  
63-66 D  
60-62 D-

< 60 F

Grades will be based on the following:

Section Test 1	20%
Section Test 2	20%
Section Test 3	20%
Comprehensive Final	40%

### Course Structure:

I have designed this course to provide a financial background in the fixed income area of the discipline. In order to understand the fixed income market, there is a great deal of background that is essential. Fixed income securities are far more than money market instruments and bonds. Trillions of dollars are being invested in newer, and more complex underlying securities, but also in derivatives contracts that cover both the more conventional as well as the more complex securities.

Thus, I have structured the course to give you an understanding first of the relationships between foreign exchange rates, interest rates, and inflation. Some of these relationships are not just theoretical relationships, since some are kept stable by riskless arbitrage in the marketplace. Then we add an understanding of what causes interest rates to change, i.e. what are the various determinants of interest rates? Finally, we will focus on the derivatives market and the various types of instruments.

You will have much outside reading. I will add other readings as needed. You are responsible for this reading on tests. I will use class time to discuss topics related to the readings, and will highlight for you the important information in the readings and go over the more difficult aspects of that important information. Your class notes will be important as you prepare for tests. You will have guest speakers, and you are responsible for their lectures on the tests as well.

Class Information  
Tuesday / Thursday  
Spring 2008

Thursday	<b>January 10, 08</b>	Chapter 1, Madura (Overview)
Tuesday	15	Read Chapter 2, Lecture on Chapter 3, Madura (Int'l Financial Mkts)
Thursday	17	Chapter 4, Madura (Exchange Rate Determination)
Tuesday	22	Chapter 5, Madura (Currency Derivatives)
Thursday	24	Chapter 6, Madura (Gov't Influence on Exchange Rates)
Tuesday	29	Chapter 7, Madura (Int'l Arbitrage and Interest Rate Parity)
Thursday	31	Chapter 8, Madura (Inflation, Interest Rates, & Exchange Rates)
Tuesday	<b>February 5</b>	<b>Take Home Test Due</b> , Global Financial System in Perspective (readings)
Thursday	7	Interest Rates and the Prices of Financial Assets (readings)
Tuesday	12	Inflation, Deflation, Yield Curves, Duration (readings)
Thursday	14	Risk Structure of Interest Rate: Defaults, Prepayments, Taxes, etc. (readings)
Tuesday	19	Interest Rate Forecasting and Hedging: Swaps, Financial Futures, Options (readings)

Thursday	21	Review of Interest Rates Material
Tuesday	26	<b>Take Home Test Due</b> , Introduction to Money Market (readings)
Thursday	28	Derivatives in a Nutshell, Forwards, Futures (Chapter 1 – 3)
Tuesday	<b>March 4</b>	Spring Break
Thursday	6	Spring Break
Tuesday	11	The Swap Contract, The Option Contract, The Credit Contract (4-6)
Thursday	13	Using Derivatives to Manage Risk – Hedging (Chapter 7)
Tuesday	18	Pricing Forwards and Futures
Thursday	20	Easter Break
Tuesday	25	Pricing Swaps
Thursday	27	Pricing Options
Tuesday	<b>April 1</b>	Pricing Options continued
Thursday	3	Review of Derivatives
Tuesday	8	<b>Take Home Test Due</b> - Appendix A and B
Thursday	10	Speaker – Commercial Banking Business Model
Tuesday	15	Speaker - CDO's, CMO's
Thursday	17	Speaker - Risk Management
Tuesday	22	Speaker - Hedge Funds
Thursday	24	Speaker – Trillion Dollar Bet
Friday	25	Classes End Awards Convocation Undergraduate Research & Creative Activity Symposium (URCAS)

#### Important Dates to Note

01/08/2008	Enrollment Clearance
01/09/2008	Classes Begin
01/15/2008	Drop Add Ends
01/16/2008	Extended Drop Begins
01/21/2008	Martin Luther King Jr. Day - No classes
01/30/2008	Extended Drop Period Ends
01/30/2008	Pass/Fail Period Ends
01/31/2008	Withdraw Period Begins
02/06/2008	Last Day to Remove Conditional Grades
02/27/2008	End of First Seven Weeks
02/29/2008 - 5:00 pm	Spring Recess Begins
03/03/2008	Mid-term Grades
03/10/2008 - 8:00 am	Spring Recess Ends
03/19/2008	Withdraw Period Ends
03/19/2008 - 5:00 pm	Easter Recess Begins
03/24/2008 - 8:00 am	Easter Recess Ends
04/25/2008	Awards Convocation and URCAS
04/25/2008	Classes End
04/26/2008	Reading Day
04/28/2008	Final Examinations Begin
05/01/2008	Reading Day 2
05/03/2008	Final Examinations End
05/03/2008	End of Spring 2007 Semester
05/05/2008	Final Grades Due
05/09/2008	Baccalaureate Service
05/10/2008	Commencement