



華東師範大學

EAST CHINA NORMAL UNIVERSITY

International Finance and Trade

Fall 2015

Prof. K (Nicholas Krapels)

Total Contact Hours: 45

Office Hours: By appointment, contact me at nickrapels@yahoo.com or wechat id: nickrapels

Class Times: F 1:00 – 4:15pm (15 mins break), except where otherwise noted

Class Dates: September 18, 2015 – December 18, 2015

Classroom: Room 353-355, 3rd floor, ECNU Physics Building

Course Description:

This course will familiarize students with the global financial system and its markets, along with the history, structure, issues (protectionism, free-trade, foreign exchange markets, exchange rate regimes) and recent developments related to international trade. The course begins with an overview of China's monetary history, specifically the role that international currency preferences played in the Opium Wars. on international trade in the post-WWII era, leading up to the present. Special emphases will be given to the impacts of international trade on select countries, as well as the regions in which they are located. Focus will be given to international organizations such as the International Monetary Fund (IMF), World Bank and the World Trade Organization (WTO) as well as multinational corporations (MNC) that influence trade and finance. During the second half of the course, students will gain an understanding of both onshore and the offshore markets, including why certain products or jurisdictions are preferred, and be given insight into current developments and their implications for international finance, and in particular, Chinese financial markets.

By the end of this course, students should be able to:

- Analyze and explain recent and important cases in international finance and trade.
- Calculate a nation's balance of payments.
- Identify key theories of international finance and trade.
- Distinguish between various foreign exchange rate regimes used today and historically.
- Understand the role of monetary and fiscal policies in international finance and trade.
- Understand the importance of onshore and offshore bond markets for the renminbi.
- Identify arbitrage opportunities using international foreign exchange parity relationships.
- Select an appropriate financial product to minimize corporate foreign exchange risk.

Selections from the following books, textbooks, and reports:

- Bramall, Chris. (2009). *Chinese Economic Development*. Routledge, ISBN: 0203890825.
- Krugman, P., Ostfeld, M., & Melitz, M. (2012). *International Economics: Theory and Policy*. (9th ed.) Pearson Addison Wesley, ISBN: 0273754092.
- Lau, K. & Minikin, R. (2013). *The Offshore Renminbi: The Rise of the Chinese Currency & Its Global Future*. John Wiley & Sons, ISBN: 1118339258.
- Spence, Jonathan. (1990). *The Search for Modern China*. W. W. Norton & Co., ISBN: 03930270982.
- *Banking and finance in China: The outlook for 2015*. A PwC survey of 43 banks and financial institutions. Download here: http://www.pwccn.com/home/eng/bfic_2015.html
- Selected contemporary articles

Evaluation Criteria:

Attendance:	10%
Class participation:	10%
Journal Article Readings & Presentations* (2):	20%
Homework:	20%
Mid-term Exam:	19%
Final Exam:	21%

**Optional Presentation of at least 20 minutes (9%) can reduce mid-term exam weight to 10%.

***Optional Research Essay of at least 1,000 words (10%) can reduce final exam weight to 11%.

Please see the “Notes on Graded Assignments” at the end of this syllabus for more info.

ALL WORK DUE BY TUESDAY, DECEMBER 22. NO EXCEPTIONS.

Module I / Classes 1-2: Chinese Monetary & Financial History

September 18 & 25, 2015

- Readings: Spence Chapters 6 & 7

We will observe the long arc of Chinese history from a numismatic perspective. Having begun to use money over 3,500 years ago, China has long been at the forefront of currency innovation.

The Middle Kingdom is responsible for the world’s first paper currency, first money orders, first central bank, first “official reserves” system, and more. In the 19th century, conflicting currency standards and trade imbalances eventually led to the Opium Wars. Understanding the **balance of payments (BoP) equation** helps to understand the financial mechanisms of international trade.

HW: BoP quantitative homework, *due October 9*.

CHINESE NATIONAL DAY HOLIDAYS

October 1 – 7, 2014

Module II / Classes 3-4: International Trade Theory

October 9 & 16, 2015

- Readings: Krugman et al. Chapters 2 & 3

Beginning with the gravity model, we explore various concepts of international trade including the historic, yet remarkably still relevant, theories postulated by Thomas Robert Malthus, David Ricardo, John Stuart Mill, Adam Smith, and John Maynard Keynes. Along the way, we will examine the critical economic concepts of comparative advantage, equilibrium analysis, the role of interest rates, and offshoring.

Class 5: Journal Article Presentations* #1 (Monday 4:30-6:00pm)

October 26, 2015

Module III / Classes 6-7: Modern International Monetary System

October 30 & November 6, 2015

- Readings: Bramall Chapter 11
Lau & Minikin Chapter 1

The 20th century began with most countries on the British-led **gold standard**. However, the Great Depression and the resulting protectionism that led to World War II led to a new international monetary system developed by the US: Bretton Woods. As China attempted to join the American-shaped new world economic order after the debilitating collapse of the Qing Dynasty and subsequent civil war, President Nixon revoked the central mechanism (the “international dollar standard”) of the **Bretton Woods System**. However, in terms of international aid and monetary assistance carried out by today’s **multilateral development banks** (MDB), the **Washington Consensus** still prevails. The Nixon Shock unleashed the volatile forces of floating foreign exchange rates that confronts us today. After the death of Mao, China began to integrate into this system via the process of “opening up” (*kaifang*), a gradual step-by-step procedure that continues to this day, while still attempting to retain its Chinese identity via the **Beijing Consensus**. We review the various types of **exchange rate regimes** and how their interaction shapes international trade and monetary policy. We also will discuss exchange rate nomenclature, currency crosses, the difference between direct and indirect exchange rate quotations, the carry trade, money supply, and reserve requirements.

Class 8: Mid-Term**Personal Finance Seminar** (after the mid-term)

November 13, 2015

Module IV / Classes 9-10: Foreign Exchange Risk Management

November 20 & 27, 2015

- Readings: Lau & Minikin Chapters 4, 5, & 7

At this point in the course, students should fully understand the complex context that the People’s Republic of China currently finds itself in today’s international financial landscape. How can we apply this knowledge to reduce foreign exchange (FX) risk and thus promote the stability of international trade? We review the various derivative financial products available, in both onshore (CNY) and offshore renminbi (CNH) that can mitigate currency risks including **foreign exchange forwards, foreign exchange swaps, interest rate swaps, and forward rate agreements**. Due to ongoing capital controls on the mainland, these products are structured somewhat differently for foreign investors investing from Hong Kong into the mainland, but their impact is largely the same. We will discuss their implementation and differences. An examination of **international foreign exchange parity relationships** will help the students to identify arbitrage opportunities in foreign exchange currency markets.

HW: FX parity calculations, *due December 4*.

Class 11: Journal Article Presentations* #2 (Monday 4:30-6:00pm)

November 30, 2015

Module V / Classes 12-13: RMB Internationalization

December 4 & 11, 2015

- Readings: PwC *Banking and Finance in China: The outlook for 2015* Chapters 1-4
Lau & Minikin Chapters 2, 3, & 6

The pace of China's push to internationalize its currency has certainly quickened in the past two years. More international trade is settled using the Chinese *yuan* than ever before. China's stock markets are roaring (and subsequently collapsing). However, China's economic growth rate has slowed to its lowest level in over 20 years. How can this be? The answer is simple. As the world increasingly accepts the legitimacy of Chinese currency, demand for RMB-denominated assets is destined to increase. Whereas Chinese citizens as recently as five years ago had only one destination for their hard-earned cash (real estate), today we are seeing an explosion of new investment products geared toward the retail market. We review the truly unique dualistic nature of **RMB-denominated bond markets (onshore & offshore)** and how this framework provides the liquidity for such products and allows for Mainland China's central government to control the pace of internationalization. We will explore the different impacts of this system on the major players in China's economy: state-owned enterprises (SOE), small-and-medium-sized enterprises (SME) and multinational corporations (MNC). Other topics covered in this section will include Dim Sum Bonds, wealth management products (WMP), local government financing vehicles (LGFV), the securitization of loans, special economic zones (SEZ), and free trade zones (FTZ).

Group HW: Case study of a single corporation (TBD) operating in China today, *due December 11*.

Class 14: Review Session (optional attendance, Monday 4:30pm - until)

December 14, 2015

Class 15: Final Exam

December 18, 2015

****Optional Final Paper due December 22, 2015 via e-mail.*

NOTES ON GRADED ASSIGNMENTS

Homework: There are two quantitative-type homework assignments during the class. Though the mid-term and final exams will not require calculations as such, students must still pay attention to the relationships between formula variables, as these concepts are imminently testable. There is also one group homework assignment, a case study on December 11. For this project, there will be a written component and a presentation component. All students will receive the same grade.

***Journal Article Presentations:** There will be two such presentations during the semester. The process for these assignments will be as follows:

1. Read a journal article from a list provided by Prof. K.
2. Write 300-500 words about that article.
3. Make a 5-slide presentation about the article's topic and conclusion to present to the class during our Journal Article Presentations sessions.

****Optional Presentation:**

If you are not happy with your mid-term grade or just simply would enjoy diving more deeply into a subject introduced in the first half of the class, you can prepare a presentation that includes AT LEAST TEN Powerpoint slides and 20 minutes of spoken presentation material. The presentation must be given within a month of the mid-term exam date. Both the subject of the presentation and its date require pre-approval from the professor.

*****Optional Research Essay:**

A 2,000-word essay is approximately 8 pages in length. If you absolutely loathe test taking and are not confident in your abilities to perform under the timed pressure of an exam, I encourage you to choose this option. Subject of essay requires pre-approval from professor.

^ For both of these projects, I encourage you to turn in a rough draft before the due date. I will evaluate and give you my feedback before the final due date so that you can increase your score!

Attendance & Participation:

You are expected to attend every class, but if you cannot (I understand you are studying abroad and encourage you to seek out adventure), you can make up your absence by engaging with me via e-mail. To satisfy this requirement, please prepare 3 thoughtful comments and 2 questions related to that particular day's class assignment. I want to know that you have read the assignment and thought about the issues in the homework. I feel the same way about class participation. If you don't ask questions or make comments in class, I cannot assess whether you have engaged with the material. I understand that some students will be more talkative than others. Therefore, if you are more comfortable making comments and asking questions via e-mail, please don't hesitate to write me. For each student, I will grant one unexcused absence without it affecting his or her class participation grade. However, students with more than one unexcused absence will negatively impact their class participation grade.