

USC Marshall

School of Business

FBE 563

GLOBAL TRADE AND FINANCE

Spring 2021

FACULTY AND CONTACT INFORMATION

Professor:	Vincenzo Quadrini
Office:	HOH 715
Phone:	213-740-6521
E-mail:	quadrini@usc.edu
Class hours:	Tuesday-Thursday 5:00-6:20
Classroom:	Online
Office hours:	Monday 4:00-6:00PM, Thursday 3:00-4:00PM
Zoom link for Office Hours:	https://usc.zoom.us/j/97707888031

COURSE DESCRIPTION

The goal of this course is to understand how the globalization of real and financial markets changes the environment where businesses and investors operate and how this affects their decisions.

The course contains three parts. The first part reviews the process of economic and financial integration in major geographical areas around the world including Europe, Asia and the Americas. This part sets the stage for the second and third parts, which analyze the implications of economic and financial integration for the operation of markets for goods and financial securities.

The second part of the course examines the factors that motivate the process of integration in the trade of goods, services and foreign direct investments. It analyzes the benefits and costs of free trade and the policies that governments use to affect international trade.

The third part of the course deals with international finance, that is, the trade in financial securities. This part starts with the analysis of foreign exchange markets (foreign currencies) and how businesses and investors can use these markets for speculative and hedging purposes. This part of the course also studies international portfolio investments and the forces underlying speculative attacks in international financial markets.

LEARNING OBJECTIVES

Upon successful completion of this course, students will be able to:

1. Understand how international markets in goods, services and financial securities work and how the internationalization of these markets affects the operation of businesses. This is essential to make informed and leading business decisions given the globalization of markets.
2. Assess the costs and benefits of investments in foreign countries with special attention to various risks including exchange rate risks, country growth risks and political instability.
3. Evaluate how financial and macroeconomic trends impact the potential growth of a business.

In order to reach the above goals, this course will enable you to make informed judgments about the consequences of increasing worldwide integration in trade and finance. Knowing the consequence of trade and financial integration is important for making informed leading decisions. Achieving this goal involves several steps. First, we must become familiar with the main empirical facts and trends about the process of trade and financial integration. Second, we must learn why we observe these trends (theoretical explanations). Third, we must learn how the institutional environment of the countries participating in the globalization process and their government policies affect the process of trade and financial integration and, ultimately, the wellbeing of the participating countries.

COURSE MATERIAL

- **Textbooks (Only suggested, not required):** Thomas Pugel, *International Economics*, Sixteenth Edition, McGraw-Hill Irwin.
Alan Shapiro and Atulya Sarin, *Foundations of Multinational Financial Management*, Sixth Edition, John Wiley & Sons,
Harold L. Cole, *Finance and Financial Intermediation: A Modern Treatment of Money, Credit and Banking*, in print.
- **Slides:** Slides for the topic covered in each class will be posted in Blackboard before the class meets.
- **Additional readings:** Additional readings for class discussion will be posted in Blackboard. Typically, readings are articles from major newspapers published in the week before class. The goal of these readings is to illustrate practical applications of the topics covered in class so that we keep the coverage up to date. Suggestions of discussion topics from students are very welcome.

For each topic I will distribute the slides covered during the course. The slides are all you need to prepare for the Final Exam. Attendance will be important for better understanding the content of the slides. In the schedule below I will also indicate several references to book chapters. Although these chapters are helpful integrating material, they are not mandatory. All you need are the slides I will make available, provided that you attend the

lectures and take notes. During the course I will frequently rely on articles from newspapers covering recent economic events that are relevant for the issues covered in class. Suggestions of discussion topics from students are very welcome.

COURSE REQUIREMENTS AND GRADING

The course grade will be based on the following weighted requirements:

1. A set of six homework assignments (each counting 2%)	12%
2. Midterm exam (March 4, 5:00-6:20PM)	25%
3. Final exam (May 6, 4:30-6:30PM)	30%
4. Group project	25%
5. Class participation	8%

Class participation: Class participation is an extremely important part of the learning experience in this course as the richness of the learning experience will be largely dependent upon the degree of preparation by *all* students prior to each class session.

Homework assignments: Homework assignment are important for helping students prepare for the exams.

Group Project: The project is completed by groups formed by a maximum of four students. The project analyzes the pros and cons of an investment project in a foreign country. Students are encouraged to form their own group (with a minimum of two students and a maximum of four). Those who prefer not to form a group themselves, will be assigned to randomly created groups. Each group will write a report that summarizes the risks involved with the particular investment in the particular country under various scenarios. The report will be presented in class and each member of the group should deliver part of the presentation. Individual presentations will be important for assessing the individual contribution of each member to the project.

EXPECTATIONS ON SYNCHRONOUS SESSIONS

Students must actively participate in all synchronous sessions via computer or laptop, with a webcam and headset/speakers. You are expected to be in a location with a reliable internet connection and without distractions. You need to be able to fully engage at all times. Students are expected to be visually present and to ask thought-provoking questions, offer relevant comments, and answer questions from faculty in a clear and concise manner. If the class meets at a time outside of 7:00am to 10:00pm in time zone, please contact the instructor immediately.

As outlined in the student handbook, there are specific expectations of a student attending class online. When attending, present and act appropriate as if you were in a physical classroom. Please do:

- Attend class from a quiet area, free of distractions.
- Dress respectfully. Video conference business meetings are and will be the norm, so practice your professional telepresence.

- If you use a virtual background, please keep it respectfully professional.
- Display both your first and last name during video conferencing and Synchronous class meetings.
- Respectfully minimize distractions by muting and or turning video off when moving around.
- Engage in appropriate tone and language with instructors or classmates.
- Disagree respectfully.
- Respectfully pay attention to classmates
- Do not engage in a simultaneous activity (e.g., using a telephone, reading a book, knitting).
- Do not interact with persons who are not part of the class.
- Do not leave frequently or not be on camera for extended periods of time.
- Do not have other persons or pets in view of the camera.
- Do not behave in an overtly inattentive manner (looking distracted, not participating)

ACADEMIC INTEGRITY AND CONDUCT

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own (plagiarism). Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. All students are expected to understand and abide by the principles discussed in the *SCampus*, the Student Guidebook (www.usc.edu/scampus or <http://scampus.usc.edu>). A discussion of plagiarism appears in the University Student Conduct Code (section 11.00 and Appendix A).

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/>. Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the *Office of Equity and Diversity* <http://equity.usc.edu/> or to the *Department of Public Safety* <http://dps.usc.edu/contact/report/>. This is important for the safety of the whole USC community. Another member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report or can initiate the report on behalf of another person. *Relationship and Sexual Violence Prevention and Services* (RSVP) <https://engemannshc.usc.edu/rsvp/> provides 24/7 confidential support, and the sexual

assault resource center webpage <https://sarc.usc.edu/reporting-options/> describes reporting options and other resources.

SUPPORT SYSTEMS

Counseling and Mental Health - (213) 740-9355 – 24/7 on call

studenthealth.usc.edu/counseling

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1-800-273-8255 suicidepreventionlifeline.org

Provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention and Services (RSVP) - (213) 740-

9355(WELL), press “0” after hours – 24/7 on call studenthealth.usc.edu/sexual-assault

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office of Equity and Diversity (OED)- (213) 740-5086 / Title IX – (213) 821-8298

equity.usc.edu, or titleix.usc.edu

Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants. The university prohibits discrimination or harassment based on the following *protected characteristics*: race, color, national origin, ancestry, religion, sex, gender, gender identity, gender expression, sexual orientation, age, physical disability, medical condition, mental disability, marital status, pregnancy, veteran status, genetic information, and any other characteristic which may be specified in applicable laws and governmental regulations. The university also prohibits sexual assault, non-consensual sexual contact, sexual misconduct, intimate partner violence, stalking, malicious dissuasion, retaliation, and violation of interim measures.

Reporting Incidents of Bias or Harassment - (213) 740-5086 or (213) 821-8298

usc-advocate.symplicity.com/care_report

Avenue to report incidents of bias, hate crimes, and microaggressions to the Office of Equity and Diversity |Title IX for appropriate investigation, supportive measures, and response.

USC Support and Advocacy - (213) 821-4710 uscsa.usc.edu

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity at USC - (213) 740-2101 diversity.usc.edu

Information on events, programs and training, the Provost’s Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call
dps.usc.edu, or emergency.usc.edu

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call dps.usc.edu

Non-emergency assistance or information.

Office of Disability Services and Programs - (213) 740-0776 dps.usc.edu,
ability@usc.edu.

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Disability Services and Programs (dsp.usc.edu) provides certification for students with disabilities and helps arrange the relevant accommodations. Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.–5:00 p.m., Monday through Friday.

COURSE OUTLINE AND ASSIGNMENTS

	Topics/ Daily Activities	Readings	Deliverables
<i>Week 1</i> Jan 19, Jan 21	Overview of trade and financial integration in Europe	Slides provided by instructor	
<i>Week 2</i> Jan 26, Jan 28	Overview of trade and financial integration in other areas in the world. Why countries trade with each other: benefits and costs	Slides provided by instructor Pugel: Chapters 2	
<i>Week 3</i> Feb 2, Feb 4	Why countries trade with each other: benefits and costs	Pugel: Chapters 3, 4	Homework problem 1
<i>Week 4</i> Feb 9, Feb 11	Policies toward international trade: import tariffs, quotas, VER, dumping, countervailing duties, etc.	Pugel: Chapters 8, 9, 11	
<i>Week 5</i> Feb 18 (February 16 is wellness day)	The balance of payments: trade account, current account, financial account.	Pugel: Chapter 16	Homework problem 2
<i>Week 6</i> Feb 23, Feb 25	The market for foreign currencies: spot rates, forward rates and futures	Pugel: Chapter 17, 18	Homework problem 3
<i>Week 7</i> Mar 2, Mar 4	Digital and cryptocurrencies as global currencies.	Cole: Chapter 10	Midterm exam (March 4)
<i>Week 8</i> Mar 9, Mar 11	What determines the exchange rate?	Pugel: Chapter 19	
<i>Week 9</i> Mar 16, Mar 18	Currency options and derivatives	Shapiro: Chapter 8, 9	Homework problem 4
<i>Week 10</i> Mar 23, Mar 25	Business strategies to hedge the exchange rate risk	Shapiro: Chapter 10	
<i>Week 11</i> Mar 30, Apr 1	International lending and financial crises	Pugel: Chapter 21	Homework problem 5
<i>Week 12</i> Apr 6, Apr 8	Foreign direct investments: Assessing the risk-return trade-	Shapiro: Chapter 6, 15, 16	

	off from investing in a foreign country		
<i>Week 13</i> Apr 13, Apr 15	Capital flows and real estate market	Slides provided by the instructor	Homework problem 6
<i>Week 14</i> Apr 20 (April 22 is wellness day)	Group project presentations		
<i>Week 15</i> Apr 27, Apr 29	Group project presentations		