

**UNIVERSITY OF NATIONAL AND WORLD ECONOMY -
SOFIA**

FACULTY OF FINANCE AND ACCOUNTING

CURRICULUM

For

Academic discipline:

INTERNATIONAL FINANCE

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ANOTATION

The discipline “International Finance” is being taught to the students in the Faculty of Finance and Accounting, Bachelor’s Degree and Master’s Degree, at the University of National and World Economy (UNWE), Sofia.

The course in “International Finance” is aimed to demonstrate the following subjects: main categories and relationships in an open economy, approaches to the balance of payments (BoP) and to the exchange rate determination, nature and types of the exchange rates, foreign exchange market and its operation, evolution of the international monetary and financial system, typology of exchange rate systems and monetary regimes, currency board arrangements and particularly the currency board arrangement (CBA) in Bulgaria, creation and functioning of the monetary unions, role of the Eurosystem and the European Central Bank /ECB/, problems associated with Bulgaria’s integration to the Euro area and to the global economy, etc.

At the seminars all concerned aspects are presented in a practical and applied form with specific examples from the economic life. Such topics are the following: external debt and BoP of Bulgaria, exchange rates and their specific calculations, modeling and forecasting of financial variables in an open economy, economic convergence, analysis of the stabilization programmes for Eastern European countries and developing countries, functioning of the European Economic and Monetary Union /EMU/ and the conduct of the ECB’s monetary policy, challenges facing the introduction of the euro in Bulgaria and other. Subsequently the latest tendencies in the international finance are presented and discussed.

The course in “International Finance” is distinguished in 10 topics each of them is accompanied by elaboration of individual works and case studies during the seminars. The hours of tuition for each topic taught comprise 3 hours lectures and 3 hours seminars.

MODULE CONTENTS

A. LECTURES

№	TOPIC	HOURS
1	INTRODUCTION IN INTERNATIONAL FINANCE <ul style="list-style-type: none">• Basic definitions in international finance.• Notion for exchange rate, open economy, balance of payments (BoP), external debt, residency, terms of trade, etc.• Subject, method and scope of international finance.• Approaches in monetary and financial theory. Main theories and concepts in the field of international finance.	3

	<ul style="list-style-type: none"> • Typology of exchange rates. Nominal, real and effective exchange rate. <p>Productivity, wages and exchange rate. Spot and forward exchange rate.</p>	
2	<p>EQUILIBRIUM AND ECONOMIC POLICY IN AN OPEN ECONOMY</p> <ul style="list-style-type: none"> • Concepts and characteristics of a close and an open economy. • Adjustment mechanisms in the economy. • Macroeconomic equations and multipliers in an open economy. Multiplier of government expenditures, export and current account. • Role of government and economic policy. Theories for external trade. • Keynesian approach to the open economy. Equilibrium on product, monetary and external sectors. Internal and external equilibrium in the IS-LM-BP model. • Equilibrium with floating and fixed exchange rates. Critics on Keynesian approach. 	3
3	<p>MONETARY APPROACH TO THE BALANCE OF PAYMENTS AND AUTHOMATIC ADJUSTMENT OF THE BALANCE OF PAYMENTS</p> <ul style="list-style-type: none"> • Monetary model. Monetary explanation of the BoP disequilibrium. • Monetary equilibrium of the exchange rate. Money supply expansion in floating and fixed exchange rates. Critics on the monetary model. • Relationship “Money supply – Balance of Payments” in a central bank system and in a currency board arrangement. • Automatic adjustment of BoP in a currency board arrangement. 	3
4	<p>INTERNATIONAL MONETARY AND FINANCIAL SYSTEM</p> <ul style="list-style-type: none"> • Nature, structure and evolution of the international monetary system. • International money and international financial markets. • International arrangements – evolution and characteristics. • Role, functions and organization of the International Monetary Fund /IMF/ and World Bank. Approaches of IMF and World Bank for macroeconomic stabilization. • Relations between Bulgaria and IMF and World Bank. • European currency system. 	3
5	<p>EXCHANGE RATE DETERMINATION AND FORECASTING</p> <ul style="list-style-type: none"> • Logics for exchange rate determination. • Market approach for the exchange rate determination. • Monetary models for exchange rates. Model of Dornbush. Portfolio balance approach. Risk premium concept. • Foreign exchange market, open market operations, foreign exchange interventions. • Foreign exchange market – structure and organization. Types of foreign exchange markets and transactions. Foreign exchange arbitrage. 	3

	<ul style="list-style-type: none"> • Modeling and forecasting of exchange rate. • Relationship “exchange rate – inflation”. Purchasing power parity theory. Absolute and relative purchasing power parity. • Tradable and non-tradable goods. • Relationship “exchange rate – interest rate”. International effect of Fisher. Interest rate parity. 	
6	<p>EXCHANGE RATE SYSTEMS AND MONETARY POLICY REGIMES</p> <ul style="list-style-type: none"> • Foreign exchange system – nature and typology. • Exchange rate system. Typology of exchange-rate systems. Criteria for choosing an optimal exchange-rate system. • IMF classification of exchange-rate systems. Fixed, floating and hybrid exchange-rate systems. • Monetary policy systems – nature and characteristics. Typology of monetary policy regimes. • Currency board arrangements – types, peculiarities, pros and cons. • Bulgarian currency board arrangement – institutional framework, functioning and empirical evidence. Role of Bulgarian currency board arrangement for the financial system and macro economy. 	3
7	<p>FIXED EXCHANGE RATE IN A CURRENCY BOARD SYSTEM</p> <ul style="list-style-type: none"> • Fixed exchange rate in a currency board system. • Choice of reserve currency, level of fixation, consequences for the economy. • Speculative attacks on the fixed exchange rates and currency crisis. • Indicators for the currency board arrangement’s stability. • Indicators for the external sector’s stability. 	3
8	<p>OPTIMUM CURRENCY AREA, EURO AREA, CONVERGENCE</p> <ul style="list-style-type: none"> • Definition of an optimum currency area. Criteria for optimality. • Optimum currency areas. Euro area. Common currency. European Central Bank /ECB/. • Processes of convergence. Nominal and real convergence. Convergence to the Euro area. • Accession of Bulgaria into the European Economic and Monetary Union /EMU/. • Introduction of the euro as a legal tender in Bulgaria. 	3
9	<p>EXTERNAL DEBT</p> <ul style="list-style-type: none"> • External debt – nature, peculiarities, indicators for measurement. • External debt structure – long-term debt, short-term debt. Creditors – official creditors, private creditors. Paris club, London club. • External debt restructuring. Plan „Brady”. Redemption. Issues of Eurobonds, 	3

	<p>global bonds.</p> <ul style="list-style-type: none"> • Indicators for external debt servicing. • External debt of Bulgaria – characteristics, dynamics, service of external debt. 	
10	<p>BALANCE OF PAYMENTS</p> <ul style="list-style-type: none"> • Main terms. Theories for the Balance of Payments /BoP/. • Elasticity approach to the BoP. Marshall-Lerner condition. J curve and its effects. • Absorption approach to the BoP. Devaluation impacts. • BoP structure – current account, capital account, financial account, statistical omissions. • Financing of the BoP deficit. • Technology for forecasting of the BoP. • BoP of Bulgaria – structure, dynamics, financing. 	3

B. SEMINARS

№	TOPIC	HOURS OF TUITION	NON- CONTACT HOURS
1	INTRODUCTION IN INTERNATIONAL FINANCE	3	6
2	EQUILIBRIUM AND ECONOMIC POLICY IN AN OPEN ECONOMY	3	6
3	MONETARY APPROACH TO THE BALANCE OF PAYMENTS AND AUTHOMATIC ADJUSTMENT OF THE BALANCE OF PAYMENTS	3	6
4	INTERNATIONAL MONETARY AND FINANCIAL SYSTEM	3	6
5	EXCHANGE RATE DETERMINATION AND FORECASTING	3	6
6	EXCHANGE RATE SYSTEMS AND MONETARY POLICY REGIMES	3	6
7	FIXED EXCHANGE RATE IN A CURRENCY BOARD SYSTEM	3	6
8	OPTIMUM CURRENCY AREA, EUROZONE, CONVERGENCE	3	6
9	EXTERNAL DEBT	3	6
10	BALANCE OF PAYMENTS	3	6

LEARNING OUTCOMES

The subject “International Finance” will provide foundation knowledge of:

- Open-economy functioning and main macroeconomic indicators’ dynamics;
- Structure and peculiarities of the balance of payments /BoP/ and theoretical models for the BoP adjusting;
- External debt’ dynamics;
- Determination, modeling and forecasting of exchange rates;
- Functioning of monetary and exchange-rate systems and currency board arrangements;
- Macroeconomic equilibrium and stabilization of domestic economy;
- Functioning of monetary unions and process of economic convergence;
- Integration of Bulgaria into the Euro area and contemporary development of European economy.

The subject will provide the following skills:

- Analytical and problem-solving skills useful for evaluating and forecasting of financial and macroeconomic indicators in an open economy;
- Ability to critically analyze the BoP problems, external debt problems, international financial markets and institutions development;
- Ability to analyze the functioning of the Eurozone, European Central bank’s monetary policy and the Eurosystem;
- Ability to research the processes of integration of Bulgaria into the European Economic and Monetary Union.

INDICATIVE READING

A. MAIN

In Bulgarian

1. Pilbeam, K., International Finance, Publishing House “FTP”, Sofia, 1995.
2. Trifonova, S., Monetary Theory, Monetary Policy, European Monetary Integration, University Publishing House “Stopanstvo”, UNWE, Sofia, 2006.
3. Nenovsky, N., K. Hristov, B. Petrov, From Lev to Euro. Which is the best way? Publishing House “Siela”, Sofia, 2001.
4. Stoimenov, M., International Finance, Sofia, 2003.
5. Mirkovitch, K., International Economics, 1st ed., Publishing House “Trakia-M”, Sofia, 2000.

6. Maslarov, S., Currency and International Finance, Publishing House “PRINCEPS”, Sofia, 1998.
7. Minassian, G., Financial Programming, 2nd ed., Publishing House „Litavra”, Sofia, 2004.
8. Minassian, G., External Debt, Theory, Practice, Management, Publishing House “Siela”, Sofia 2004.
9. Trifonova, S., Currency Board, Bank System and Financial Development University Publishing House “Stopanstvo”, UNWE, Sofia, 2002.
10. BNB, Balance of Payments, 1995.
11. ECB, Institutional Framework of the European System of Central Banks, ECB Monthly Bulletin, July 1999.
12. Hanke, S., K. Schuler, Currency Board and Financial Stabilization, Friedrich Ebert Foundation, 1997.
13. Darajanov, A. and co-authors, 100 % Forex: We study and gain together, Publishing House „Siela”, 2008.
14. Dimitrov, E., Appreciation of the real exchange rate in a currency board – consequences and solutions, BNB, Information Bulletin, 4/1997.
15. Yotzov, V., N. Nenovsky, Choice of a reserve currency and fixed exchange rate in the introduction of a currency board, BNB, Information Bulletin, 4/1997.
16. Mantchev, Tz., Money supply in Bulgaria under the conditions of a currency board, BNB, Information Bulletin, 8/1997.
17. Nenovsky, N., Free money. Questions on economic theory, Bulgarian Academy of Sciences Publishing House “Marin Drinov”, 2001.
18. Nenovsky, N., K. Hristov, B. Petrov, Two approaches for the fixed exchange rates crisis, BNB Discussion Papers, 1998/4.
19. Challenges facing financial sectors in last and present candidate countries for accession into the European Union in the context of the European internal market legislation, Economic Policy Institute, Sofia, 2005.
20. Roussenova, L. and co-authors, Challenges facing financial sector and financial intermediation in Bulgaria in the context of the integration to the European Union, UNWE, Sofia, 2006.
21. Soros, G., New paradigm of financial markets, Publishing House “Siela”, Sofia, 2008.
22. Trifonova, S., Results from the currency board’s operation in Bulgaria, UNWE, Scientific Works 2001, Vol. 1, University Publishing House “Stopanstvo”, Sofia, 2001, pp. 77 – 114.
23. Trifonova, S., Efficiency of the currency board arrangement in Bulgaria in the process of integration, Banks. Investments. Money, Vol. 2, Sofia, 2002, pp. 10–22.

24. Papers and materials on the personal website of Assoc. Prof. Dr. Silvia Trifonova: www.silvia-trifonova.microstat-analytics.com.
25. Papers and materials on the personal website of Prof. Nikolay Nenovsky: www.nenovsky.com.

In English

26. Pilbeam, K., International finance, 3rd. ed. - Basingstoke [u.a.]: Palgrave Macmillan, 2005.
27. Levi, M., International Finance, 4th ed., Routledge, 2005.
28. De Grauwe, Economics of Monetary Union, Oxford University Press, 2007.
29. Hallwood, P.C., R. MacDonald, International money and finance, Blackwell Publ., 2000.
30. Eijffinger, S. J. de Haan, European monetary and fiscal policy, Oxford University Press, 2000.
31. Isard, P., Globalization and the International Financial System, Cambridge University Press, 2005.
32. Mishkin, F., International Experiences with Different Monetary Policy Regimes, NBER Working Papers, No. 7704, 1999.
33. ECB, The monetary policy of the ECB, European Central Bank, Frankfurt am Main, 2004.
34. ECB, The implementation of monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures February 2004, ECB Working Paper No. 363, May, 2004.
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B. ADDITIONAL

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1. BNB, series „Discussion Papers”, review “Economic Review”, Annual Report of BNB, Semiannual Report of BNB, Monthly Information Bulletin of BNB, series “Banks in Bulgaria”, Statistics - www.bnb.bg

2. Reviews - "Economic Thought", "Budget" (Ministry of Finance), "Government Securities and Debt" (BNB and Ministry of Finance), "Banks. Investments. Money", etc.
3. Angelov, I. and co-authors, The Economy of Bulgaria and the European Union. Strategy for catching-up economic development till the year of 2020, Economic Institute of the Bulgarian Academy of Science, Foundation "Friedrich Ebert", Sofia, 2003.
4. Yotzov, V., Modeling and forecasting of macroeconomic development in Bulgaria in a currency board: Methodological foundations and empirical results, Wissenschaft und Politik, 2000.
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6. Nenovsky, N., Monetary and budget policy in a floating exchange rate, Economic Thought, 1993/4.
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10. Bret, M., How to read financial pages, Publishing House „Daga 700”, 1993.
11. Galic, L., Financial engineering: Instruments and techniques for financial risk management, Publishing House „Delphine press”, 1994.
12. Crauder, C., FOREX: Guide for successful trade in foreign exchange market, Publishing House „Libra Scorp”, 2003
13. Development of financial sectors in Central and Eastern European countries and their integration into the European Union, Economic Policy Institute, Sofia, 2005.
14. Yankulov, Y., Free economic and offshore zone, Publishing House „Trakia-M’, Sofia, 1999.
15. Jivkova, S. and co-authors, Short-term forecasting of exchange rates, BTPP, 1980.
16. Trifonova, S., The monetary policy of the BNB during the process of integration to the Eurozone, Scientific and Technical Unions-Varna, 5th International Conference "Investments in future-2005", Proceedings, Varna, Bulgaria, 2005.
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18. Internet websites: Government of the Republic of Bulgaria - www.minfin.bg, Ministry of Finance of the Republic of Bulgaria - www.government.bg, Bulgarian National Bank /BNB/ – www.bnb.bg, EU Structural Funds - www.eufunds.bg, etc.

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19. Friedman, M., A. Schwartz, A Monetary History of the United States, 1867-1960, Princeton University Press, 1971.
20. Krugman, P., Currencies and Crises, Cambridge, Massachusetts, London: The MIT Press, 1992.
21. Krugman, P., A model of balance-of-payments crises, Journal of Money, Credit, and Banking 11, 1979, pp. 311-25.
22. Roussenova, L., The 1996–1997 financial crisis in Bulgaria, Sofia: European Institute, 2002.
23. Rehman, S., Financial crisis management in regional blocs, Kluwer Acad. Publ., 1998.
24. Bishop, P., D. Dixon, Foreign Exchange Handbook: Managing Risk and Opportunity in Global Currency Markets, McGraw-Hill, 1992.
25. Kenen, P., Exchange Rates and the Monetary System, Edward Elgar, 1990.
26. Kenen, P., Managing Exchange Rates, Routledge, 1988.
27. Ahimud, Y., Exchange Rates and Corporate Performance, IRWIN, 1994.
28. IMF, Analytical issues in debt, International Monetary Fund, 1992.
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37. ECB, Convergence Reports, European Central Bank.

38. Internet websites: IMF - www.imf.org, European Central Bank – www.ecb.int, European Union - www.europa.eu, World Bank – www.worldbank.org, etc.
39. Internet websites for foreign exchange market: www.GFTuk.com, www.Easy-Forex.com, www.gcitradng.com, www.theforexguide.net/intro-to-forex.go, etc.