

University of Haifa-Faculty of Management  
International MBA

International Finance (209.4972) - Period 5,  
July-August 2018

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**Office hours:** on lecture days, on a **pre-arranged** basis

Two recent global phenomena have influenced the thinking and actions of policy makers, organizations and society at large. One is the global financial crisis of 2008 which has shaken our faith in governments, central banks, regulators, and financial institutions. The second is the accelerating rate of technological advances that increase connectivity across countries; blur the boundaries between the physical and the virtual; and provide alternatives to traditional finance. Both these phenomena have influenced many aspects of our lives and have consequently given rise to world debates concerning global versus local interests; free market versus regulations; and issues of fairness and equality in access to finance, taxation, work and retirement.

The aim of this course is to shed light on the financial and economic aspects of current global developments, focusing in particular on the impact of the global financial crisis and on the consequences of an accelerated technological progress. We will explore the meaning of a globalized, well-connected and technologically changing world and study its manifestation in financial markets, trade, and organizations. The impact of the forces of globalization and technology varies across countries and cultures; an issue we will also explore and discuss.

The course is built around four sessions, each devoting to a particular financial aspect of a modern, global world. All sessions begin with an introduction by the lecturer to the financial aspect to be explored, followed by **Groupwork** on various contemporary topics relating to that aspect.

**Course content:**

#	Thurs.	Topic
1	12.7.18 (18:00-21:00)	International cooperation and trade: <i>The case of the international monetary system and the currency market</i> <u>Key terms:</u> The International Monetary System; Forex Markets; Currency Manipulation; Currency War
2	19.7.18 (18:00-21:00)	The impact of accelerated technological progress: <i>The case of digital money and cashless economies</i> <u>Key terms:</u> Cryptocurrency; Bitcoin; Initial Coin Offering; Cashless societies
3	26.7.18 (18:00-21:00)	Financial crises: <i>The case of the subprime mortgage crisis and the Great Recession</i> <u>Key terms:</u> Securitization; Collateralized Debt Obligations (CDOs); Lehman Brothers
4	2.8.18 (18:00-21:00)	Global and local: <i>The case of local finance in a globalized and technologically advanced world</i> <u>Key terms:</u> The future of work; tax havens; microfinance; gender; migration

The final grade for the course is composed as follows:

Task & percentage of grade	Requirements
Essay (40%)	<ul style="list-style-type: none"><li>The self-study assignment is <b>an essay</b> to be submitted a week following the end of the course. (See appendix A.1 for the structure of the essay.)</li><li>You are required to select one research paper as the basis for your self-study assignment. (See Appendix A.2 for the list of articles to choose from.)</li></ul>
Attendance & participation (10%)	You should come prepared to class, having selected one of the topics for group work under the relevant session (see next).
Group work (50%)	<ul style="list-style-type: none"><li>You will form 4 groups of 3 students each and will select a topic per session to study as a group. (see Appendix B for lists of topics organized under the various sessions)</li><li>You will have time during each session to explore the chosen topic and to prepare a short presentation and key points for class discussion.</li><li>Your group needs to be prepared to introduce its selected topic to the rest of the class at the end of each session, and to lead relevant class discussion.</li></ul>

\*A passing grade (minimum 65/100) in each of the above components is a necessary condition for a passing grade in the course.

### Appendix A: Essay (40%)

#### (1) Instructions:

Each student is required to select one of the articles listed below and to analyse it in no more than 5 pages. The analysis should be organized as follows:

- the set-up/question
- the background
- the methodology and key results
- the main implications
- your critical assessment of the research paper

**The essay is to be submitted by email ( [rmanos@colman.ac.il](mailto:rmanos@colman.ac.il) ) no later than Thursday, 9.8.18.**

**Please make sure to receive confirmation of submission.**

(2) List of articles with abstracts:

Session 1 : *International monetary system and the currency market*

Article	Abstract
<p>Doskov, N. and Swinkels, L., 2015.</p> <p>Empirical evidence on the currency carry trade, 1900–2012.</p> <p><i>Journal of International Money and Finance</i>, 51, 370-389.</p>	<p>Most of the currency literature investigates the risk and return characteristics of the currency carry trade after the collapse of the Bretton Woods system. In order to gauge the long-term currency carry premium, we extend the sample to 20 currencies over the period 1900 to 2012. We find modest Sharpe ratios in the range of 0.2–0.4 for carry trading over this period. This is markedly lower than the Sharpe ratios above 0.6 reported for recent sample periods. We document that carry trading occasionally incurs substantial losses, which fits well with risk-based explanations for deviations from uncovered interest parity. We find that large carry trading losses do not necessarily coincide with large losses in global equity markets. Our results help to better understand the source and nature of excess returns on the carry trade.</p>
<p>Fatum, R. and Yamamoto, Y., 2016.</p> <p>Intra-safe haven currency behavior during the global financial crisis.</p> <p><i>Journal of International Money and Finance</i>, 66, 49-64.</p>	<p>We investigate intra-safe haven currency behavior during the recent global financial crisis. We first assess which safe haven currency is the “safest”. We then use non-temporal threshold analysis to investigate whether intra-safe haven currency behavior changes as market uncertainty increases. We find that the JPY is the “safest” of safe haven currencies and that only the JPY appreciates as market uncertainty increases regardless of the prevailing level of uncertainty. Our results may have important implications for central banks optimizing their relative composition of international currency reserve holdings with respect to returns in USD terms and for foreign currency market investors in general</p>
<p>Jeanne, O., 2012.</p> <p>The dollar and its discontents.</p> <p><i>Journal of International Money and Finance</i>, 31(8), 1976-1989.</p>	<p>Has the US dollar delivered the benefits that the rest of the world is expecting from its holdings of international liquidity? US government debt has been liquid and safe, and it is supplied in sufficient quantity. But it has given a low return to the countries that accumulated the most reserves, especially when those returns are measured in terms of the countries’ own consumption. I argue in this paper that the countries that accumulate the most reserves should expect a low return in terms of their own consumption, and that there is little that international monetary reform can do to change that fact</p>
<p>Tavlas, G., Dellas, H., and Stockman, A.C., 2008.</p> <p>The classification and performance of alternative exchange-rate <b>systems</b>.</p> <p><i>European Economic Review</i>, 52(6), 941-963.</p>	<p>Owing to dissatisfaction with the IMF’s de jure classification of exchange-rate regimes, a substantial literature has emerged presenting de facto classifications of exchange-rate systems and using the latter classifications to compare performances of alternative regimes in terms of key macroeconomic variables. This paper critically reviews the literature on de facto regimes. In particular, the paper (1) describes the main methodologies that have been used to construct de facto codings, (2) surveys the empirical literature generated by de facto regime codings, and (3) lays-out the problems inherent in constructing de facto classifications. The empirical literature is found to yield few robust findings. We argue that the as-yet unfulfilled objective of this literature, and the major research agenda for the future in this area, lies in the need of a more thorough investigation of the degree of monetary-policy independence without relying exclusively on movements in exchange rates, an agenda the attainment of which is made especially challenging because of the lack of comprehensive and reliable data on reserves and interest rates.</p>



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**Session 2 : Digital money and cashless economies**

Article	Abstract
<p>Baur, D.G., Hong, K.H., and Lee, A.D., 2018 (forthcoming).</p> <p>Bitcoin: Medium of exchange or speculative assets?.</p> <p><i>Journal of International Financial Markets, Institutions and Money</i></p>	<p>Bitcoin is defined as digital money within a decentralized peer-to-peer payment network. It is a hybrid between fiat currency and commodity currency without intrinsic value and independent of any government or monetary authority. This paper analyses the question of whether Bitcoin is a medium of exchange or an asset and more specifically, what is its current usage and what usage will prevail in the future given its characteristics. We analyse the statistical properties of Bitcoin and find that it is uncorrelated with traditional asset classes such as stocks, bonds and commodities both in normal times and in periods of financial turmoil. The analysis of transaction data of Bitcoin accounts shows that Bitcoins are mainly used as a speculative investment and not as an alternative currency and medium of exchange.</p>
<p>Immordino, G. and Russo, F.F., 2018 (forthcoming).</p> <p><b>Cashless</b> payments and tax evasion.</p> <p><i>European Journal of Political Economy</i></p>	<p>Cashless payments hinder tax evasion because they build a trail for the underlying transactions. Using European data, we find empirical evidence supporting this claim: credit and debit card payments are negatively related to VAT evasion. We also find that using electronic cards to withdraw cash at ATMs, by making cash more abundant, fosters VAT evasion.</p>

**Session 3 : The subprime mortgage crisis and the Great Recession**

Article	Abstract
<p>Cornett, M. M., Erhemjamts, O., &amp; Tehranian, H., 2016.</p> <p>Greed or good deeds: An examination of the relation between corporate social responsibility and the financial performance of US commercial banks around the financial crisis.</p> <p><i>Journal of Banking &amp; Finance</i>, 70, 137-159.</p>	<p>We examine the relation between banks' corporate social responsibility (CSR) and financial performance in a context of the recent financial crisis. We find that banks, in general, appear to be rewarded for being socially responsible as financial performance is positively and significantly related to CSR scores. We find that the biggest banks pursue socially responsible activities to a significantly greater extent than smaller banks. Further, the largest banks see a steep increase in CSR strengths and a steep drop in CSR concerns after 2009</p>
<p>Dwyer, G.P. and Lothian, J.R., 2012.</p> <p>International and historical dimensions of the financial crisis of 2007 and 2008.</p> <p><i>Journal of International Money and Finance</i>, 31(1), 1-9.</p>	<p>This article provides an interpretative overview of the papers in this special issue of JIMF devoted to international aspects of the 2007–2009 financial crisis. It then goes on to provide additional empirical evidence of two sorts. The first documents the difference between the monetary policies pursued by the European Central Bank, the Bank of Japan, the Bank of England and the Federal Reserve in this episode and the policies pursued by the Federal Reserve in the Great Depression. In the course of this episode, unlike the Great Depression, policies were not contractionary and the recessions were less severe than in the United States in 1929–1933. The second compares the recovery in the United States in the aftermath of the recent crisis and in</p>

recovers following periods of previous banking crises. This recovery is much weaker than average

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**Session 4 : Local finance in a globalized and technologically advanced world**

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Article	Abstract
<p>Delechat, M.C.C., Newiak, M.M., Xu, R., Yang, M.F. and Aslan, G., 2018.</p> <p><i>What is Driving Women's Financial Inclusion Across Countries?</i></p> <p>International Monetary Fund.</p>	<p>Using a broad set of macroeconomic country characteristics to supplement a new and comprehensive micro-level dataset for 140 countries, we identify structural factors, policies, and individual characteristics that are associated with financial inclusion—in general, and for women in particular. We find that structural country characteristics, such as resource richness and level of development, and policies, such as stronger institutions, and financial development are significantly related to financial inclusion. We find a robust negative relationship between being female and financial inclusion as in previous studies, and our analysis points to legal discrimination, lack of protection from harassment, including at the work place, and more diffuse gender norms as possible explanatory factors.</p>
<p>Levine, R., Lin, C., and Xie, W., 2016.</p> <p>Spare tire? Stock markets, banking crises, and economic recoveries.</p> <p><i>Journal of Financial Economics</i>, 120(1), 81-101.</p>	<p>Do stock markets act as a spare tire during banking crises, providing an alternative corporate financing channel and mitigating the economic severity of these crises? Using firm-level data in 36 countries from 1990 through 2011, we find that the adverse consequences of banking crises on equity issuances, firm profitability, employment, and investment efficiency are smaller in countries with stronger shareholder protection laws. These findings are not explained by the development of stock markets or financial institutions prior to the crises, the severity of the banking crisis, or overall economic, legal, and institutional development</p>

### Appendix B: Group work

*The following is a list of topics for the groups to select from in each session:*

#### 1. *international monetary system and the currency market*

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**What is money?** (BBC Radio 4, [Analysis](#), Sun 1 Apr 2012 30min)

<https://www.bbc.co.uk/programmes/b01dtlzn>

We dream about it, argue about it, worry about it, celebrate it, spend it, save it, we transfer it from one emotion to another. But what exactly is money? And why do we trust it? Frances Stonor Saunders takes a journey through some of the fundamentals of money.

During her journey she dips her toe into the world of quantitative easing. How is that money invented? Is it as real as the pieces of paper in our wallets? And she explores some of the reasons for the calls to return to a gold standard. Essentially, she tries to gain a better understanding of what this stuff which we call money is really about; how and why do we maintain our faith in it, or has it just become too complicated?

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**The Gold Standard** (BBC Radio 4, [Analysis](#), Sun 8 Jul 2012 30min)

<https://www.bbc.co.uk/programmes/b01k9qd8>

As banks collapse and governments run out of money, the popular solution is to print more and more and expand bank balance sheets. But is there another way of fixing our economy? Would the financial system be more stable if each pound in our pocket was backed by gold? The Today programme's business presenter Simon Jack meets the so-called 'gold bugs' who predict the collapse of the paper system as well as those who argue that a return to the gold standard would be a huge mistake. Which makes more sense - placing your faith in a yellow metal or in money created at the push of a button?

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**Bretton Woods, the World Bank and the IMF** (BBC World Service, [Places That Changed The World](#), 16 September 2005, 27min)

<https://www.bbc.co.uk/programmes/p03bh6dp>

Everything that makes the global economy tick has its roots at this 1944 conference, a mixed legacy examined by former US Federal Reserve chairman Paul Volker and others.

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**Is the Euro the New Gold Standard?** (BBC Radio 4, [The Long View](#), Tue 19 Jul 2011, 30min)

<https://www.bbc.co.uk/programmes/b012l1y4>

Jonathan Freedland is joined by Norman Lamont and historian Patricia Clavin to discuss how Britain's departure from the Gold standard in 1931 sheds light on the predicament of Greece and the Euro today. It's a shared story of economic collapse, austerity measures, mass protest and the international money markets. All in the context of a currency network that arguably hindered instead of helped its crisis hit members. Britain left the Gold standard in 1931, but would Greece benefit from leaving the Euro today?

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## 2. Digital money and cashless societies

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**Magical Money** (BBC World Service, [The Documentary Podcast](#) 9 May 2018, 28min)

<https://www.bbc.co.uk/programmes/p66l9qq>

A new digital currency gold rush is sweeping the world but is the bubble about to burst?

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**Is Bitcoin Dead?** (BBC World Service, [Business Daily](#) Wed 21 May 2014, 18min)

<https://www.bbc.co.uk/programmes/p01z1r8b>

It's the world's best-known digital currency, only exists as code on your hard drive, and last year it almost imploded amidst an apparent security breach at its biggest global exchange. But Bitcoin is far from dead yet. Retailers from Singapore to San Francisco are still embracing this controversial form of e-currency, which advocates say still offers a more democratic and less expensive means of doing business. Others say it is the currency of crooks. We hear the pros and the cons and from one expert who thinks that Bitcoin's future remains as bright as ever.

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**When the Bitcoin Miners Come to Town** (BBC World Service, [Business Daily](#) Mon 4 Jun 2018, 18min)

<https://www.bbc.co.uk/programmes/w3cswgkh>

The real-world impact of the cryptocurrency business. Edwin Lane reports from Iceland, which has attracted power-hungry Bitcoin mines looking for a cheap source of electricity. Arni Jensen from the Borealis Data Centre shows him around a cryptocurrency mine near Reykjavik, and Johann Sigurbergsson from the geothermal energy company HK Orka describes the massive growth in the demand for electricity the miners have created. And the mayor of Plattsburgh, New York, Colin Read explains why his city is the first in the world to announce a temporary ban on cryptocurrency mining, amid concerns over its electricity supply.

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**Bitcoin bubbles and safe havens** (BBC World Service, [Business Daily](#), Wed 6 Sep 2017, 18MIN)

<https://www.bbc.co.uk/programmes/w3cstx53>

In times of economic crunch, where should you store your savings? Perhaps you are tempted by the rise in value of bitcoin. But can it last? And what is bitcoin anyway? A currency or an asset? Garrick Hileman, Research fellow at the Cambridge centre for alternative finance, tells the BBC's Manuela Saragosa what to make of the cryptocurrency. British business couple Baroness Michelle Mone and Doug Barrowman tell Ed Butler about their property development where units will be sold for bitcoin. And Martin Arnold, an analyst at London investment firm ETF Securities, weighs it up against other assets, like the safe haven of gold.

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**What's The Point Of Bitcoin?** (BBC World Service, [The Inquiry](#) , Mon 1 Jan 2018, 23 MIN)

<https://www.bbc.co.uk/programmes/w3csvgsh>

Making sense of the digital currency and the ideology of its founders, fans and future. In 2010 a developer spent 10,000 bitcoin to buy two pizzas. Seven and a half years later that was the equivalent of over \$80m. Bitcoin has been exploding in value throughout 2017 as more and more people buy into the idea of a digital currency. Traditional financial institutions have even begun to get involved. But far from a mainstream investment, Bitcoin started life as an idea from the radical cypherpunk movement, who wanted to use decentralised technologies as a way to disrupt governments and corporations. In this edition of The Inquiry we trace the history and development of Bitcoin – and ask whether its future will stay true to its libertarian roots.

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### 3. *The subprime mortgage crisis and the Great Recession*

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#### INSIDE JOB (Published on 27 Aug 2010)

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From Academy Award® nominated filmmaker, Charles Ferguson, comes INSIDE JOB, the first film to expose the shocking truth behind the economic crisis of 2008. The global financial meltdown, at a cost of over \$20 trillion, resulted in millions of people losing their homes and jobs. Through extensive research and interviews with major financial insiders, politicians and journalists, INSIDE JOB traces the rise of a rogue industry and unveils the corrosive relationships which have corrupted politics, regulation and academia. Narrated by Academy Award® winner Matt Damon, INSIDE JOB was made on location in the United States, Iceland, England, France, Singapore, and China

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Part1: The global financial crisis: How We Got Here

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Part2: The global financial crisis: The Bubble (2001–2007)

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Part3: The global financial crisis: The Crisis

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Part4: The global financial crisis: Accountability

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Part5: The global financial crisis: The aftermath

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### 4. *Local finance in a globalized and technologically advanced world:*

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**Africa's Billion Pound Migrant Trail** (BBC World Service, [The Documentary Podcast](#), 28 September 2017 28min)

<https://www.bbc.co.uk/programmes/p05h9vxc>

Countries from Europe and Africa are joining forces to stop the migrant trade. Can they succeed? And at what human cost?

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**Why Doesn't Apple Pay More Tax?** (BBC World Service, [The Inquiry](#), 27 Nov 2017 23MIN)

<https://www.bbc.co.uk/programmes/w3cvsyb>

The world's most profitable company is accused of aggressively dodging tax. Leaked documents in the Paradise Papers show Apple moved hundreds of billions of dollars in untaxed foreign profits to Jersey, where foreign companies pay no corporation tax. Yet Apple says it pays "every dollar it owes in every country around the world". Confused? Not for long.

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**Why do Tax Havens Still Exist?** (BBC World Service, [The Inquiry](#) Sun 2 Aug 2015 25min)

<https://www.bbc.co.uk/programmes/p02xnbqg>

In 2009, UK Prime Minister Gordon Brown declared "the beginning of the end" for off-shore tax havens. Since then, the EU, the G20, President Obama and others have lined up to criticise them. And yet they are still with us. Tim Whewell asks why tax havens continue to exist, and whether tax havens are really to blame for tax avoidance in the first place.

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**Is Retirement Over?** (BBC World Service, [The Inquiry](#) Sun 4 Sep 2016 23min)

<https://www.bbc.co.uk/programmes/p045lh2n>

For millennia human beings worked until they dropped. Then in the late 19th century, Otto von Bismarck started the first state pension in Germany. The idea caught on. By the 20th century, advances in medicine meant that many more people were surviving childhood and living longer and longer into old age. This was great news for those individuals, but not such good news for governments and companies who found themselves having to fund ever-longer retirements. Many of the most generous schemes have now been withdrawn and it's increasingly up to the individual to save for their retirement – but many aren't saving enough. Volatile stock markets and low interest rates are making the situation worse. Many think retirement will turn out to be a "blip" in human history; it didn't exist in the past, and it won't exist in the future. So, is retirement over? Our expert witnesses are: Professor Noel Whiteside of the University of Warwick, UK; Thomas B Jankowski, research director at Wayne State University, US; David Blake, director of the Pensions Institute at Cass Business School, London, Andrew Scott, professor of economics at London Business School.

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**What Will Happen When Robots Take Our Jobs?** (BBC World Service, [The Inquiry](#) , Sun 23 Aug 2015, 23min)

<https://www.bbc.co.uk/programmes/p02ys32f>

Robots are coming for your job. Blue-collar jobs in industries like manufacturing have been disappearing for years but now white-collar work is under threat too. Machines are already taking roles that used to be done by journalists, lawyers and even anaesthetists. One recent study calculated that 47% of total employment in the US is at risk of automation in the next 20 years. So what will happen to all the human beings who did those jobs? Will we invent enough new jobs to keep them occupied? If not, how will they fill their time? And how will they earn money? The Inquiry – still made by humans, for now, – brings you answers.

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**From Construction To Microfinance - David Bussau, Part 1** (BBC World Service, Global Business 19 August 2004, 26 min)

<http://www.bbc.co.uk/programmes/p03jrr9q>

An interview with David Bussau, a New Zealand entrepreneur and pioneer of microfinance. David Bussau is the co-founder in Opportunity International, one of the leading pioneers of microfinance. He talks about his journey from construction to social finance, after winning an award at the Global Entrepreneur of The Year in Monte Carlo.