

Preface

About this book

This book had a forerunner—“International Financial Markets and The Firm”, co-authored with Raman Uppal, which came out in 1995. By 2003 or 2004 Raman and I had agreed that a text full of Italian Lira or German Marks and where traders still had a full two minutes to respond to market makers’ quotes, might sooner or later risk getting outdated. Starting the revision itself turned out to be much more difficult than agreeing on the principle, though. In the end Raman, being so much busier and more rational than I am, preferred to bow out. How right he was. Still, now that the effort has become a sunk cost, forever bygone, I find that episodes where I sincerely curse the book (and myself and Princeton University Press) are becoming fewer and farther between. Actually, there now are several passages I actually begin to like.

Like the previous book, the book still targets finance students, or at least students that want a genuine finance text, not an international-management or -strategy text with a finance slant nor an international monetary economics text with some corporate applications. There is a continued bias in favor of financial markets and economic logic; the aim is to provide students with a coherent picture of international markets and selected topics in multinational corporate finance. Sure, during everyday practice later on, this framework will then get amended and corrected and qualified; but the feeling of fundamental coherence will remain, we hope.

This book is more analytical than the modal text in the field. Compared to the Sercu-Uppal book, some of the math has been dropped and new matter has been added. As before, a lot of it is in Appendices, thus stressing its optional character. The main difference, I think, is that the in-text math is brought in differently. While in International Financial Markets we had every theorem or proof followed by an example, now the example comes first whenever that is possible. If so, the proof is often even omitted, or turned into a DoItYourself assignment. In fact, a third innovation is that, at least in the chapters or sections that are sufficiently analytical rather than just factual, the reader is invited to prove or verify claims and solve analogous problems. The required level of math is surely not prohibitive; anybody who has finished a good finance course should be able to master these DoItYourself assignments. Still, while the required level of mathematical prowess is

low, a capacity for abstract thinking and handling symbols remains vital.

Every Part, except the Intro one, now has its own introductory case, which is intended to stimulate the reader's appetite and which can be a source of assignments. The cases usually cover issues from most chapters in the Part.

A fifth change is that the Part on exchange-rate pricing is much reduced. The former three Chapters on exchange-rate theories, predictability, and forward bias are now shrunk to two. And, lastly, three wholly new chapters have been added: two on international stock markets—especially crosslisting with the associated corporate-governance issues—and one on Value at Risk.

Typically, a preface like this one continues with a discussion and motivation of the book's content. But my feeling is that most readers—and surely students—skip prefaces anyway. Since the motivation of the structure is quite relevant, that material is now merged into the general introduction chapter, Chapter 1.

How to use this book

The text contains material for about two courses. One possibility is to take the second Part, *International Financial Markets*, as one course, and group the more business-finance oriented material (grouped into *Exchange Risk, Exposure, and Risk Management* (III) and *Long-Term Financing and Investments* (IV)) as a second. Fixed-income markets, which now is in Part III, could be included in the markets/instruments course, like it was in the 1995 book; and the whole package can also duplicate as an intro derivatives course, along with the apocryphal Chapter ?? that is available on my website. I myself run two 40-hr courses covering, respectively Parts II-III (Instruments, Risk Management) and Part IV (Stocks, bonds, capital budgeting).

For one single course one could focus, in Part II, on spot (Chapter 3) and forwards (Chapters 4 and 5), and then continue with the chapters on relevance of hedging and exposure (Chapters 12 and 13), to finish with capital budgeting (Chapter 21); this shortlist can be complemented by a few chapters of your liking.

Leuven, December 2006.