• **International Trade:**
  – Dynamics of exchange of good and services between world economies
    • USA - Japan Trade Deficit
    • Reebok purchasing shoes from Sri Lankan manufacturers

• **Foreign Direct Investments:**
  – Private, quasi-private, and public investments in other countries
    • Toyota opening plant in Alabama
    • Chinese government purchase of US Treasuries

• **International Markets:**
  – Market places around world in which stocks, bonds, currencies are traded
    • EASDAQ vs. NASDAQ
    • JPY (¥) vs. USD ($); USD ($) vs. Euro (€)
    • Sovereign bonds; *Brady* bonds
Money and Markets

• Money is the means of exchange
  – Money and Mint are derivatives of Moneta, the Roman goddess of warning.
  – CASH; Chinese name for a base metal

• Markets are places of exchange
  – Babylonians first set up organized market places to exchange grains and other valuable commodities
History of Capital

• Babylon, 3000 B.C. - 2000 B.C.
  – Banking; grains and other valuables deposited
• Lydia and China, 700 B.C.
  – Coins; as means of exchange
• China, 100 A.D.
  – Paper bills (CASH); promise for payment
• Spain and Italy, 1400 A.D.
  – Banking and Lending; interest charged
• Britain, 1500 - 1700 A.D.
  – Joint Stock Co.; sharing capital resources
  – Exchange Markets; commodity and stocks
World Stock Markets

- New York Stock Exchange, NYSE or "The Big Board"
- NASDAQ, world's first electronic stock market
- Toronto Stock Exchange
- La Bolsa Mexicana de Valores, BMV
- EASDAQ, based in Belgium
- Frankfurt Stock Exchange (FWB)
- London Stock Exchange, the world's oldest marketplace
- Tokyo Stock Exchange
Market Systems

• Market Maker (Dealer)
  – LONDON

• Limit Order Book
  – Paris Bourse
  – Most Europeans

• Hybrid
  – NYSE
  – Toronto
Worldwide Systems
A “World” Wide Puzzle

- Royal Dutch and Shell Transport
  - In 1907 the two merged with 60:40 basis for sharing income
  - Royal Dutch traded in US and Netherlands; Shell traded in UK
- If all works out, then Royal Dutch should sell 1.5 times Shell!
• First emerging market bond?
  - American colonies (Hamilton) in 1790 financed the independence war with bonds
International Bonds

• Latin America, 1980s
  – Excessive international borrowing both from banks and from investors
  – Troubled economies, numerous defaults, chronic payback problems

• Brady Bonds, 1989
  – Treasury Secretary Nicholas Brady suggest securitizing emerging market debt into bonds and selling to markets

• Dual Currency Bonds, 1980s – 1990s
  – Japanese firms issued bonds with interest in dollar and principle in yen to use a tax loophole

• Sovereign Bonds, 1990s
  – Former Soviet republics, Asian tigers, and others joined corporations to issue dollar dominated bonds
Currencies

• **First known exchange rate:**
  – In 1797, Britain mandated American colonists should pay only 8 shillings for an Spanish Peso

• **Gold Era:**
  – Buy and sell gold at a predetermined price

• **Bretton-Woods Era:**
  – After WWII, for 25 years, countries agree on stable and adjustable exchange rates, US$ linked to gold and other currencies pegged to dollar

• **Fluctuating Exchange Rate:**
  – In 1971, under pressure from worldwide increase in international trade, and US reluctance to play pivotal role, the Bretton-Woods was replaced with fluctuating rates
• Soros and Bank England, 1992
  – Soros cornered Bank of England by forcing delivery of Gold which supposedly Bank of England was selling to appreciate Pound

• Mexican Peso Crisis
  – In a manner of days, Peso dropped by 50% from 3.5 Peso/$ to 6 Peso/$
  – This meant that a the family of a Mexican student in US should convert twice as many pesos to pay her bills!