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BOOK REVIEW

Piet Sercu: International Finance

Princeton University Press, 2009

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International Finance by Piet Sercu is the most comprehensive textbook on the financing, transactional, and risk management side of international trade and investment currently available. It finds its origins in a previous book by Uppal and Sercu (1995), International Financial Markets and the Firm. Much has changed since publication of the previous volume: electronic trading is now prevalent and the Euro has replaced many European currencies. These circumstances, among others, are covered in the new book, justifying a review of it in this issue of FMPM. Compared to many other textbooks, this one excels at focusing on the topic at hand and not merely providing a corporate or derivative textbook with some international flavor added. The book provides more than ample material for courses on financial markets and business finance. All topics are illustrated with myriad examples and each chapter has review questions, now a standard feature of textbooks. The homepage accompanying the book provides additional information, including solutions to the assignments. Each chapter ends with a "CFO's Summary," which is a recap of the chapter from a practitioner's viewpoint that students may find especially appealing.

The book's introductory section provides a brief macroeconomic synopsis of why international finance is relevant and which mechanisms affect international equilibriums. Part 2 introduces the instruments available to participants in international financial markets. A chapter is devoted to spot markets and the available derivatives. Here, like in almost every other textbook on derivatives, currency futures, forwards, swaps, options, and their pricing are covered. Because this book is focused on handling currency contracts, the author goes into great detail on how these contracts are structured, traded, and quoted in practice. Especially interesting for future market participants is the discussion on taxation and transaction costs. Part 3 deals with the

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time-series properties of exchange rates and provides a thorough discussion on the econometric side of modeling exchange-rate risk and exposure. Sercu also provides genuine statistical results on purchasing power parity tests and the forecasting power of models. The author shows both sides of the coin: e.g., that purchasing power parity is found to hold, at best, in the long run and that forecasting ability is hotly debated. In later chapters, the book focuses on how and why hedging should take place and the modalities of the accounting aspects. The final part of the book takes a different tack from the rest of it in that instead of dealing mainly with exchange risk, it emphasizes international investment decisions by companies. The author covers a diversity of topics, ranging from the mechanism of issuing loans, debt, and equities to the workings of the relevant market environments to budgeting and taxation in cross-border situations. Several chapters explain how to derive investment decisions in an international framework.

International Finance covers a multiplicity of issues having to do with trading, investing, and operating in international markets. The most intriguing feature of the book is that Sercu manages to merge theoretical foundations, such as macroeconomic theory and risk premiums, with the ins and outs of international markets. This will make the book especially appealing to future practitioners interested in a deeper understanding of their chosen career.