Foreword

It is sometimes said, not least by me, that there appears to be something of a divide between academia and practice in finance and banking. Those who publish in academia on finance topics have little or no experience in banking, and those who practise in finance only rarely, if ever, read academic journal articles on the subject. If this is indeed the case, it is a pity. That’s because both sides would benefit from closer involvement with the other: academics from focusing their research on areas of direct relevance to practitioners, who would be interested to read practical recommendations on how they should direct their operations; and practitioners, by being able to apply an academic rigour to their analysis and drawing of conclusions. Thus, any activity that results in both sides coming closer together is a positive development for society.

This book reduces slightly the level of clear blue water between academia and practice in finance. But before I expound on its many virtues, I must declare an interest. One of the authors is a personal friend of mine, but I was aware of Professor James and the quality of her work many years before I met her, as I was a big fan of her co-authored book *Interest Rate Modelling* (John Wiley & Sons Ltd) which I purchased over 20 years ago. I still have that very well-thumbed copy. It is an excellent read. But then again yield curves and yield curve analysis was my first love in finance and banking, so perhaps I was pre-disposed to be appreciative of a book with such a title? Not a bit of it. This topic is one of the most well-researched subjects in finance-related academia, but from my own personal observations I would suggest that over 80% of the output in this space has virtually zero practical relevance for the employee of a bank. What made Jessica’s book stand out was its accessibility and genuine value for the practitioner.

And this is exactly what stands out in this latest offering from Professor James and her co-authors Michael Leister and Christoph Rieger. It helps to bridge the divide between academia and practice, and the result is a genuinely worthwhile addition to the financial economics literature.

The Foreign Exchange (FX) markets are a multi-trillion dollar vital segment of the global economy, and the basics of it are generally well understood – there is, after all, a large number of publications and websites in this space. But for corporate entities using FX markets for hedging, and that covers very many entities around the world, there are aspects of the market that are less well understood, such as the cross-currency “basis”. Banks who provide these products to their corporate customers also will want to know about some of the more arcane aspects of the market. This book addresses these issues with elan. Another technical topic that is presented accessibly with a minimum of mathematics (we are adherents to the late Professor Stephen Hawking’s dictum that for each equation in a book, the readership is cut by one-half!) is the FX conversion factor, something that can be of material significance to those issuing or investing in a non-domestic currency.

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The authors cover these subjects with exceptional clarity and precision in this book. They also discuss at length that most favourite topic of mine, the yield curve and the term premium. The term premium is an aspect of yield curve analysis that is, again, not as well understood by practitioners as it should be. They will benefit immediately from a reading of the relevant chapters herein.

I can honestly say that I am more excited about this book than I have been about any other financial markets texts I have come across in a long time. It is great to see a work that has value for both the academic and the practitioner, from writers who are clearly at the top of their game. I do hope you enjoy reading it.

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