

# International Finance MBA

## Competences:

This course introduces the student to International Financial Management. The course focuses on decision making in an international context and how financing and investment decisions change when a firm operates in more than one country. The course explores the international financial markets and currency parity conditions, including the relationship between spot and forward exchange rates, interest rates, and inflation rates. The course will also cover the role of derivatives in hedging risk in the international capital markets, as well as, the assessment and valuation of foreign investments.

## Program Learning Outcomes

After this course, the student should be able to:

- 1.1 Have a better understanding of the role of International Finance in a modern corporation
- 1.2 Understand the financial and risk issues raised by foreign operations
- 1.3 Assess the role of financial derivatives to hedge risk in the international markets
- 1.4 Analyse investment decisions in an international context
- 1.5 Students should be able to understand the role of a digital economy, in business decision making

## Advancing your Knowledge.

- Understand the international economy, as an integrated set of capital flows, subject to market risks
- Improve the capacity of analysis of the foreign exchange markets, to understand the dynamics of the economic variables that determine economic flows
- Integrate the international capital markets with the financing and hedging, investment and foreign trade decisions in a modern corporation
- To analyze the various sources of risks for a company in global environment.
- To understand, the far reach value of sustainability, for the corporation and the economy, as a whole, in a global context.

## Methodology

The approach of the course is to treat International Finance as a natural and logical extension of the foundations and principles learned in Financial Management. Thus, it builds on and extends the valuation framework (NPV, IRR, Risk Diversification, Derivatives, etc.) learned in domestic Corporate Finance, whose previous basic knowledge will be an advantage during the course

The methodology of the course includes both a general framework for analyzing international financial issues, understanding market information and the use of some specific quantitative simulators. The course highlights both theory and applications. Extensive use of cases and investment tools, presents the student with a challenging real-life environment in which to apply decision-making skills in an international context.

## Assessment

Assignments and class participation: 20%.

Case study homework or midterm exam: 30%

Final exam: 50%.

## Courses activities

The course offers a variety of real-life examples, both numerical and institutional, that demonstrates the use of financial analysis and reasoning in solving international financial problems. We will also explain the financial issues, unique to international investment or that have an international dimension, introducing the major problems, threats and risks, but also the opportunities, faced by firms venturing abroad.

## References

- Eiteman, D. Stonehill A. I. and Moffet M. H (2014); Multinational Business Finance (MBF), 14<sup>th</sup> edition
- Shapiro, A. C. (2013); Multinational Financial Management (MFM) 10<sup>th</sup> edition; John Wiley & Sons, Inc
- Brealey, R.A. Myers, S.C. y Allen, F. (2010); Principles of Corporate Finance, McGraw-Hill, Ch. 28

### Course outline:

1. Foreign Trade and the foreign exchange markets. Sustainability issues.
2. Spot and forward markets. International Parity Conditions
3. Foreign exchange risk: Translation, transaction and operating exposure.
4. Hedging currency risk with derivatives. The role of information in a digital economy.
5. Foreign Direct Investment Assessment and Valuation. Political Risk.

### Detailed Course Program:

- ▶ **Class 1** Foreign trade and the foreign exchange markets. The role of information a digital era.  
**Books:** Eiteman, Stonehill and Moffet (2013), Multinational Business Finance Ch. 1 and 6  
Shapiro. (2010); Multinational Financial Management, Chapter 7  
**Cases/Exercises:** FOREX Simulator: <http://www.oanda.com>: Player Instructions.  
**Readings:**-"Bid-Ask Spreads in the Interbank Foreign Exchange Markets" Bessembinder, H (1994), Journal of Financial Economics  
-"Globalization: A bigger World", The Economist, Sep 18th 2008  
-"Making Money off Money", Newsweek, March 18, 2004
- ▶ **Class 2:** International Parity Conditions  
**Books:** Eiteman, Stonehill and Moffet (2013), Multinational Business Finance Ch. 7 and 9  
Shapiro. (2010); Multinational Financial Management, Chapter 4  
**Cases/Exercises:** "The Economist, FX Big Mac"  
**Readings:** "Forward and spot exchange rates", Fama, E.F. (1984). Journal of Monetary Economics 14 (3): 319–338  
-"Spot-forward co integration, structural breaks and FX market unbiasedness".  
-"Burgernomics: The Economics of the Big Mac standard", Li Lian Ong (1997), Journal of International Money and Finance
- ▶ **Class 3:** Foreign exchange risk: Translation, transaction and operating exposure. Sustainability  
**Books:** Eiteman, Stonehill and Moffet (2013), Multinational Business Finance Ch 11, 12, 13  
Shapiro. (2010), Multinational Financial Management, Chapter, 10-11  
**Cases/Exercises:** "Laker Airways", "The Midas formula"  
**Homework** "The Bank for International Development" (BID)  
**Readings:** "Financial Exchange Rates and International Currency Exposure" P. Lane and J. C. Shambaugh (2007), NBER Working Paper Series WP 13433  
-"The resilient dollar", The Economist, Oct 2nd 2008
- ▶ **Class 4:** Hedging Currency Risk with Derivatives: Futures and Options  
**Books:** Eiteman, Stonehill and Moffet (2013), Multinational Business Finance Ch. 8  
Shapiro. (2010); Multinational Financial Management, Chapters, 8-9  
**Cases/Exercises:** "Rogue Trader: Nicholas Lesson",  
**Readings:** "A short history of modern finance: Link by link" *The Economist*, 2008,  
-"Sovereign Credit Default Swap Valuation", Camino, D. Neru, M. and Pehlivan C.(2011), Swiss Derivatives Review, 47  
-"The collapse of Barings"
- ▶ **Class 5:** Foreign Direct Investment and Valuation. Political Risk  
**Books:** Eiteman, Stonehill and Moffet (2013), Multinational Business Finance, Ch. 17- 18  
Shapiro. (2010), Multinational Financial Management, Chapter 16-17  
**Cases/Exercises:** "Eurotunnel", "Corporate Governance in Brazil Telecom"  
**Readings:** "When to Put Money In Holes in the Ground", (1992), International Herald Tribune  
-"International Banking: Paradise lost", The Economist, May 15th 2008