

Syllabus: International Finance

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.

After this course, the student should be able to:

- Have a better understanding of the role of International Financial Management in a modern corporation
- Understand the accounting and risk issues raised by foreign operations
- Asses the role of financial derivatives to hedge risk in the international markets
- Analyse investment decisions in an international context

Methodology

The approach of the course is to treat International Finance as a natural and logical extension of the foundations and principles learn in Financial Management. Thus, it builds on and extends the valuation framework (NPV, IRR, Risk Divesification, Derivatives, etc.) learn 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 some specific quantitative simulators. The course highlights both theory and applications. Extensive use of cases and investment tools, presents the student with a challenging and real-life environment in which to apply decision-making skills in an international context.

Assessment

Homework and class participation: 20%
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 (2016); Multinational Business Finance (MBF), 14th edition
- Shapiro, A. C. (2014); Multinational Financial Management (MFM) 10th edition; John Wiley & Sons, Inc
- Brealey, R.A. Myers, S.C. y Allen, F. (2014); Principles of Corporate Finance, McGraw-Hill, 11/e Ch. 28

Course outline:

1. Globalization, Trade and the Foreign Exchange Markets
2. Financial Institutions and the Balance of Payments
3. Spot and Forward Markets. Prices and Quotations.
4. International Parity Conditions.
5. Currency Forecasting and Foreign Exchange Exposure.
6. Hedging Foreign Exchange Risk with Derivatives.
7. Foreign Direct Investment Assessment and Valuation.

Detailed Course Program

- ▶ **Class 1. Multinationals, Foreign Trade and Comparative Advantage.**
Books: Eiteman, Stonehill and Moffet (2016), Multinational Business Finance Ch. 1 to 4
Cases/Exercises: “Inside Job: The International Monetary System (Iceland)”; “Global Remittances”
Readings: “When did globalisation start?.”, *The Economist*, Sept. 2013;
“Globalization: A bigger World”, *The Economist*, Sept. 2008

- ▶ **Class 2. The Foreign Exchange Market. Size and quotations. Spot and Forward**
Books: Eiteman, Stonehill and Moffet (2016), Multinational Business Finance Ch.5
Shapiro. (2014); Multinational Financial Management, Chapter 7
Cases/Exercises: The Venezuelan Bolivar. FOREX Simulator: <http://www.oanda.com>: Player Instructions.
Readings: “Cables, sharks, and the geography of the foreign exchange market”; Eichengreen, Mehl, Lafarguette (2016); <http://voxeu.org/article/cables-sharks-and-geography-foreign-exchange-market>
BIS: “Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2016”;
<http://www.bis.org/publ/rpfx16.htm>
“Bid-Ask Spreads in the Interbank Foreign Exchange Markets” Bessembinder, H (1994), *Journal of Financial Economics*

- ▶ **Class 3: International Parity Conditions. Forecasting**
Books: Eiteman, Stonehill and Moffet (2016), Multinational Business Finance Ch. 7 and 9
Shapiro. (2014); Multinational Financial Management, Chapter 4
Cases/Exercises: Mrs. Watanabe and Japanese Yen. The Yuan Goes global
Homework: The Bank for International Development” (BID)
Readings: PPP Theory: “The Economist, FX Big Mac”
“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 4: Hedging Currency Risk with Derivatives: Futures, Options and Swaps**
Books: Eiteman, Stonehill and Moffet (2016), Multinational Business Finance Ch. 8
Shapiro. (2014); Multinational Financial Management, Chapters, 8-9
Cases/Exercises: “Kikos and South Korean Won”; LTCM: “The Midas formula”
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;”

- ▶ **Class 5: Foreign exchange risk: Translation, transaction and operating exposure**
Books: Eiteman, Stonehill and Moffet (2016), Multinational Business Finance Ch 11, 12, 13
Shapiro. (2014), Multinational Financial Management, Chapter, 10-11
Cases/Exercises: “Laker Airways”; “Argentina and Vulture Funds” “Rusian Ruble Roulette”
Readings: The collapse of Barings: Rogue Trader: Nicholas Lesson” “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 6: International Portfolio Management**
Books: Eiteman, Stonehill and Moffet (2016), Multinational Business Finance Ch. 16
Shapiro. (2014); Multinational Financial Management, Chapters.
Cases/Exercises: “Portfolio Theory, Black Swans and (avoiding) being the Turkey”
Readings: Strategic Portfolio Theory: Is modern portfolio theory outdated?

- Class 7: Foreign Direct Investment and Valuation. Political Risk**
Books: Eiteman, Stonehill and Moffet (2016), Multinational Business Finance, Ch. 17- 18
Shapiro. (2014), 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