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# International Economics

**COURSE DESIGNATOR** LNDN 3753

**LANGUAGE OF INSTRUCTION** English

**NUMBER OF CREDITS** 3

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## COURSE DESCRIPTION

The International Economics module provides an understanding of the key economic issues in the global business environment. The course provides an understanding of how global businesses are impacted by real world developments in economics, politics and finance. The business environment is dynamic in nature. The course coverage is therefore updated periodically to include current real world evidence as well as recent academic and empirical findings. The five broad topics covered in the course are: Globalisation, Country Differences, Cross-Border Trade & Investment, the Global Monetary System, and Competing in a Global Market Place. An overview of these five topics is provided below.

**Globalisation:** Understanding the historical context of globalisation is the starting point for developing insights into the state of globalisation today. This topic discusses the drivers and importance of globalisation, the emergence of the Bretton Woods global institutions in the post-War period, the state of the globalisation debate and the impact of globalisation on developed and developing countries.

**Country Differences:** This topic provides an introduction to political and economic systems and the determinants of economic development. It looks at the transition from socialist to capitalist economies after the collapse of the Soviet Union and the challenges faced by countries in managing this economic transition. It examines the key issues in economic development and the rise of developing economies in Asia, Latin America, Eastern Europe and Africa.

**Cross-Border Trade & Investment:** The third topic reviews international trade and investment flows – portfolio and foreign direct investment – in the globalised context. It examines the theoretical underpinnings of capital and trade movements, providing country case studies to illustrate the supply-demand factors affecting these flows. The topic also places these cross-border flows in the context of economic integration – for example, the European Union, NAFTA, Mercosur, World Trade Organisation, and the recent developments towards free trade pacts between Asia-Pacific, Europe and the Americas.

**Global Monetary System:** Starting with the Bretton Woods institutions like the International Monetary Fund, the World Bank and other multilateral institutions, the topic provides an understanding of the global foreign exchange markets and the international monetary system. These institutions provide the backbone and the regulatory framework for international economics; the topic develops an understanding of their operations, management and challenges.

**Competing in a Global Market Place:** The final topic builds upon the understanding gained thus far by reviewing the economic and political risks and opportunities of participating in the global market place. The discussions include import-export and investment strategies, offshoring production, and management of human resources to compete effectively.

The course helps students examine the current economic landscape through topical discussions of current economic and political development and their impact on international economics.

With its global presence, CAPA offers students the opportunity to enrich their academic experience by exposing and exploring the localised context of the CAPA London Centre. London is the leading international financial centre and the UK is a member of the European Union. While the UK is not a member of the Eurozone (countries using the Euro currency), it has deep economic and financial links with other European countries. In the global foreign exchange market daily turnover of \$5 trillion, London is the leading participant, handling 40% of all the world's foreign exchange business. London's pre-eminent role in the international financial markets dates back to its being the capital of the British Empire as well as the various market innovations developed in the UK since the 1980s. The International Finance students will be expected to develop and expand their understanding of this local context of the UK's role in the global and European

marketplace. The research paper project provides the students an opportunity to explore this localised context and to demonstrate their learning outcomes from this unique opportunity provided studying International Finance at the CAPA London Centre.

## **COURSE OBJECTIVES**

Students will develop the following skills during this course:

- Problem analysis
- Critical thinking
- Working independently and as part of a team
- Personal reflection

## **LEARNING OUTCOMES**

After taking this course, students should be able to:

- Gain a broad understanding of the key issues in international finance.
- Develop an understanding of the political and economic context within which international finance operates.
- Apply the various theoretical aspects of the principles of finance in an international context.
- Gain a good working knowledge of the operations and key issues surrounding international capital flows, foreign direct investment, foreign exchange rate determination and exposure management, international capital markets and institutions, and develop an understanding of how the financial management of a multinational firm works.

## **COURSE PREREQUISITES**

There are no prerequisites. Students from a variety of backgrounds and interests are encouraged to take this class.

## **METHODOLOGY**

This class will be participative and will require students to contribute individually and as part of a team. The course content and delivery will create a framework where students reflect critically on the weekly discussion topics. The students will be expected to devote an hour per day keeping up with the current issues in international finance. (Expected reading sources should include *The Economist*, *Financial Times* and *The New York Times*). The teaching and learning methods will be a blend of the following:

- Lectures
- Reflections & observations
- Readings on current topics
- Class discussions
- Student presentations and/or a research paper.

## **MY EDUCATION REQUIREMENT**

Foreign exchange markets have a global turnover of approx. \$5 trillion daily. Nearly 40% of this turnover goes through London, making it the global centre for international finance. As part of this course, field trips will be arranged to the Bank of England, the City of London and Canary Wharf (the hubs of international finance in London). Further, it is strongly recommended that students attend topical evening talks and lectures at the London School of Economics and Political Science, where prominent economists, political leaders and members of civil society present their views on current economic and financial events.

## **REQUIRED READING AND RESOURCES**

*International Finance*, Eun, Cheol S., Resnick, Bruce G., Sabherwal, Sanjiv (McGraw Hill, 6<sup>th</sup> Global edition, 2011).

It is fine to use later editions or online versions of the textbook. You could obtain used copies of the book at substantial discounts through the online marketplace. The book is also available for electronic download through the publisher.

## **GRADING**

### **CAPA PROGRAM AND INSTRUCTOR POLICY**

The faculty expects from its students a high level of responsibility and academic honesty. Because the value of an academic course depends upon the absolute integrity of the work done by the student, it is imperative that a student demonstrate a high standard of individual honor in his or her scholastic work and class behavior. This means to gain full

attendance you must attend all classes, you must not be late (unless with a valid reason) and you must be respectful of the professor and of other students by not talking/whispering in class when others are talking or presenting. Persistent lateness or lack of attention in class, i.e., reading materials other than the work assigned, may result in a low or zero grade for participation, and possible referral to the CAO. **No electronic equipment will be used in class**, including laptops, phones, ipods, cell phones, etc, unless you have written permission from the Chief Academic Officer prior to the course. If you are caught using any electronic equipment, you may receive a zero grade for participation.

Plagiarism will be dealt with very seriously, and will be referred to the Chief Academic Officer in London. You may receive an F for the course. If all work is not submitted by the end of the program, you will receive an F for the course.

### CLASS PARTICIPATION AND ATTENDANCE

Attendance at all classes is mandated by CAPA; students who miss a class without permission from CAPA’s Chief Academic Officer will have their grade for the course lowered. Informed participation is expected in every class, so students must have read the full assignment carefully before coming and be ready to discuss it if called upon. At any meeting there may be a brief, pass-fail two-minute quiz on some utterly obvious fact in the assigned reading. Students will also be asked to complete informal in-class writing assignments on a regular basis, which will require them to demonstrate their familiarity with the assigned materials. Students who repeatedly demonstrate unsatisfactory performance on these quizzes and exercises will be penalized in the participation grade.

### CRITERIA FOR GRADING AND GRADING STANDARDS

Grading Rubric		
A	93+	Achievement that is outstanding relative to the level necessary to meet course requirements.
A- B+ B	90-92 87-89 83-86	Achievement that is significantly above the level necessary to meet course requirements.
B- C+	80-82 77-79	Achievement that meets the course requirements in every respect.
C C- D+	73-76 70-72 67-69	Achievement that is worthy of credit even though it fails to meet fully the course requirements.
D F	60-66 <59	Represents failure (or no credit) and signifies that the work was either (1) completed but at a level of achievement that is not worthy of credit or (2) was not completed and there was no agreement between the instructor and the student that the student would be awarded an I.

### GRADING FOR ASSIGNMENTS

Research Paper & Class Presentation	40%
Midterm Exam	20%
Participation and MyEducation Observations	10%
Final Exam	30%
Overall grade	100%

### SCHEDULE AND ASSIGNMENTS

## Course Topics

Weeks 1	<p>Introduction to International Finance</p> <ul style="list-style-type: none"> <li>• Introductions, student interests, relevant prior coursework &amp; experience</li> <li>• Course map, format, required work and assessments</li> <li>• Review of research paper guidelines – detailed guidelines posted in this syllabus</li> </ul> <p>Foundations of International Finance – Chapter 1.</p>
Week 2	<p>International Monetary System &amp; Balance of Payments</p> <ul style="list-style-type: none"> <li>• Chapters 2 &amp; 3</li> <li>• Historical perspectives of the International Monetary System</li> <li>• Gold standard</li> <li>• Exchange rate regimes – pegs, fixed, floating, currency boards, etc.</li> <li>• The Euro and European Monetary System</li> <li>• Review of historical currency crises</li> </ul> <p>Overview of Balance of Payments</p>
Week 3	<p>Foreign Exchange Markets &amp; Exchange Rate Determination – part 1</p> <ul style="list-style-type: none"> <li>• Chapters 4 &amp; 5</li> <li>• Function &amp; structure of the foreign exchange market</li> <li>• International finance in practice – market mechanics</li> <li>• Spot &amp; forward rate determination</li> </ul> <p>Interest rate parity.</p>
Week 4	<p>Foreign Exchange Markets &amp; Exchange Rate Determination – part 2</p> <ul style="list-style-type: none"> <li>• Chapters 4 &amp; 5</li> <li>• Interest rate parity (contd.)</li> <li>• Purchasing Power Parity &amp; International Fisher Effect</li> <li>• Forecasting foreign exchange rates</li> <li>• Foreign exchange futures &amp; options</li> <li>• Other hedging strategies – Money Market Hedge</li> </ul> <p>Carry trades</p>
Week 5	<p>International Capital Markets &amp; Institutions – part 1</p> <ul style="list-style-type: none"> <li>• Chapters 7, 8 &amp; 9</li> <li>• International Banking &amp; Money Markets</li> <li>• International Bond Markets</li> </ul> <p>Research paper status updates</p>
Week 6	<p>International Capital Markets &amp; Institutions – part 2</p> <ul style="list-style-type: none"> <li>• Chapters 7, 8 &amp; 9</li> <li>• International Bond markets (contd.)</li> </ul> <p>International equity markets</p>
Week 7	<p>International Portfolio Investment</p> <ul style="list-style-type: none"> <li>• Chapter 11</li> <li>• International diversification &amp; portfolio risk reduction</li> </ul>

	<ul style="list-style-type: none"> <li>Evaluation of risks &amp; opportunities</li> </ul> <p>Impact of changing foreign exchange rates</p>
Week 8	<p>Financial Management of a Multinational Firm – part 1</p> <ul style="list-style-type: none"> <li>Chapters 12 &amp; 13</li> <li>Management of economic, transaction &amp; translation exposure</li> <li>Key issues in exposure management</li> <li>Review of exposure management strategies</li> </ul> <p>Research paper 2<sup>nd</sup> status updates</p>
Week 9	<p>Financial Management of a Multinational Firm – part 2</p> <ul style="list-style-type: none"> <li>Chapters 12 &amp; 13</li> <li>Foreign direct investment (FDI)</li> <li>Theory &amp; practice of FDI</li> </ul> <p>Multinational cash management.</p>
Weeks 10	<p>International Trade &amp; Taxation</p> <ul style="list-style-type: none"> <li>Chapters 19, 20 &amp; 21</li> <li>Exports &amp; Imports</li> <li>Review of international tax environment – key issues</li> <li>Theory vs. Practice</li> </ul> <p>Review of international corporate governance</p>
Week 11	<p>Class Research Paper Presentations</p> <p>Group presentation limited to 10 slides &amp; 12-13 minutes</p>
Week 12	<p>Research paper submission deadline &amp; Review Session</p> <ul style="list-style-type: none"> <li>Review of quantitative problems</li> </ul> <p>Course review – what have we learned?</p>

## RESEARCH PAPER & CLASS PRESENTATION ASSESSMENT GUIDELINES

Paper submission deadline: week 12

Class presentations: week 11. Provide an outline of your essay, the theoretical background, data and findings of your case study and the conclusions. Please note that this presentation is a group effort and should be limited to 10 slides and 15 minutes (max). There will be a Q&A session following the presentation. The students will be given feedback on their presentations and will be expected to incorporate this feedback into their final research paper submissions.

### RESEARCH PAPER GUIDELINES

Select any one of the topics that we will be covering in this course. Bear in mind that these topics/chapters are rather broad and you will need to narrow down your research topic significantly. You should identify a small aspect of the theoretical discussion that interests you and focus sharply on it. In other words, you should not be providing a general overview of the chapter(s).

The next step is to identify a case study or identify sufficient data that fits your selected topic. You may choose current or recent economic/financial events or alternatively examine an event/s from a historical perspective. The course outline provides you ample guidance on sources of such data. (Please do not start with a case study and then try to find the theoretical basis for it. This will not be efficient.)

The final step will be to provide a thorough analysis. How does the case study or evidence fit into the theoretical discussion? Are the facts consistent with the theory? Explain why (or why not). What lessons did you learn from this project? This analysis will carry the highest weight for this assignment.

To obtain an A grade, the submission will have to meet ALL three requirements: (1) theoretical discussion; (2) good presentation of case study; and (3) thorough analysis. Any submissions that do not meet all the criteria will be downgraded.

You will provide 3 status updates through the term on the progress you have made to date on your projects. This will enable the lecturer to provide you with the necessary guidance and feedback. It is important that you come well prepared for these status updates.

### **LOCALISED CONTEXT**

The students are required to identify relevant research paper topics within the localised context of the UK and Europe to benefit from their presence in London, the UK and Europe. These research paper topics should be discussed with the lecturer in advance. Preparatory work would include developing good reading sources such as the *Financial Times*, the *Economist* and the *New York Times* to gain a better understanding of the localised context.

### **MID-TERM & FINAL EXAMS**

The mid-term and final exams will include a combination of quantitative problems and a series of multiple-choice questions. The final exams will be cumulative and cover the entire course material.

### **ATTENDANCE POLICY**

Regular attendance and punctuality are mandatory in order to earn full marks. The final grade will take into consideration preparation required for class (i.e. readings) and participation in class discussions. If you miss any meetings without an excused absence from the on-site director, your final grade will be dropped accordingly. In the case of absences, it is the student's responsibility to find out what information was given in class including any announcements made.

### **UNIVERSITY OF MINNESOTA POLICIES AND PROCEDURES**

Academic integrity is essential to a positive teaching and learning environment. All students enrolled in University courses are expected to complete coursework responsibilities with fairness and honesty. Failure to do so by seeking unfair advantage over others or misrepresenting someone else's work as your own, can result in disciplinary action. The University Student Conduct Code defines scholastic dishonesty as follows:

#### **SCHOLASTIC DISHONESTY**

Scholastic dishonesty means plagiarizing; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; altering forging, or misusing a University academic record; or fabricating or falsifying data, research procedures, or data analysis.

Within this course, a student responsible for scholastic dishonesty can be assigned a penalty up to and including an "F" or "N" for the course. If you have any questions regarding the expectations for a specific assignment or exam, ask.

### **STUDENT CONDUCT**

The University of Minnesota has specific policies concerning student conduct and student needs. This information can be found on the Learning Abroad Center website.