

International Finance

COURSE DESIGNATOR SDNY 3021

LANGUAGE OF INSTRUCTION English

NUMBER OF CREDITS 3

COURSE DESCRIPTION

The International Finance module provides an understanding of finance in the international context. In a globally integrated world, it has become imperative to trade, invest and conduct business operations internationally. The course exposes the students to the opportunities and risks associated with international finance. The course coverage includes historical perspectives and foundations of international finance, the foreign exchange markets and exchange rate determination, exposure management, financial management of a multinational firm.

With its global presence, CAPA offers students the opportunity to enrich their academic experience by exposing and exploring the localised context of the CAPA Sydney Centre. Issues particular to the Australian situation include: The Australian dollar is the fifth most heavily traded currency in the world after the US dollar, Yen, Euro and Pound. The past thirty years since the float of the Australian dollar have seen Australia's strong institutional framework successfully navigate several hazards including the 1998 Asian crisis and the Global Financial Crisis. Understanding the reasons for Australia's relative stability in these circumstances will illuminate various themes of the course.

A key dynamic in the movement of the Australian dollar is Australia's terms of trade, heavily influenced by global commodity demand. The Australian economy is tightly connected with the major Asian economies of China and Japan through commodity exports, and is best understood in the context of the Asian region. The Australian dollar is a barometer of the global economic cycle, and is transacted as such by traders, with around 40% of Australian dollar turnover occurring in the UK.

Because of the relative size of Australia's financial markets, global investors have a correlated impact on the prices of Australian financial assets and the Australian dollar. From the perspective of an Australian investor, this enhances the diversification benefits of investing offshore, and Australian institutional investors are less prone to home bias than those of major developed countries.

The Australian banking system, resilient through the Global Financial Crisis, is rated by S&P as one of the five safest in the world. This systemic strength owes much to the quality of prudential supervision, and is despite the fact that Australian banks borrow heavily offshore to fund their assets.

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 Sydney Centre.

COURSE OBJECTIVES

As the world has become more integrated due to deregulation of financial markets, product innovation and technology, capital markets have kept pace with this integration. The study of international finance has therefore become essential and builds upon the understanding of theoretical concepts of finance and their adaptation to the international context. The course also helps students examine the current economic landscape through topical discussions of current economic and political development and their impact on international finance.

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.

Students will develop the following skills during this course:

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

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*, *Australian Financial Review*, *Asian Wall Street Journal*, 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
- Online activities
- Student presentations and/or a research paper.

MYEDUCATION REQUIREMENT

Students are encouraged to participate in events/activities from the CAPA Sydney MyEDUCATION calendar to broaden understanding of this subject in the context of Sydney and Australia. Students will be asked to draw on these experiences in one or more learning activities within this course.

In addition the course includes field classes, which also count towards MyED. Australia provides around a quarter of the world's thermal coal imports. The largest export coal terminal in the world is located a few hours from Sydney at Newcastle. As part of this course, field trips will be arranged to the Newcastle port and also to the Sydney financial district, focussing on banking and supervision. Sydney is home to a number of think tanks that address global affairs from an Australian perspective, including the Australian Institute of International Affairs and the Lowy Institute for International Policy. Students are encouraged to attend topical events hosted by these bodies.

REQUIRED READING AND RESOURCES

The following text is required for the course:

International Finance, Eun, Cheol S., Resnick, Bruce G., Sabherwal, Sanjiv (McGraw Hill, 6th 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.

RECOMMENDED READING

Stevens G (2013), 'The Australian Dollar: Thirty Years of Floating', Speech to the Australian Business Economists' Annual Dinner, 21 November

Stevens G (2007), 'The Asian Crisis: A Retrospective', Address to the Anika Foundation, 18 July

Stevens G (2006), 'Capital Flows and Monetary Policy', Remarks to Investor Insights: ANZ Asia Pacific Seminar, 17 September

Kent C (2014), 'The Resources Boom and the Australian Dollar', Address to the Committee for Economic Development of Australia (CEDA) Economic and Political Overview, 14 February

Rush A, D Sadeghian and M Wright (2013), 'Foreign Currency Exposure and Hedging in Australia', RBA *Bulletin*, December, pp. 49-57

Debelle G (2009), 'The Australian Foreign Exchange Market in the Recovery', Speech to the Westpac Research and Strategy Forum, 10 December

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-	90-92	
B+	87-89	Achievement that is significantly above the level necessary to meet course requirements.
B	83-86	
B-	80-82	
C+	77-79	Achievement that meets the course requirements in every respect.
C	73-76	
C-	70-72	
D+	67-69	
D	60-66	Achievement that is worthy of credit even though it fails to meet fully the course requirements.
F	<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.

SCHEDULE AND ASSIGNMENTS

Course Topics	
Week 1	<p>Introduction to International Finance Introductions, student interests, relevant prior coursework & experience Course map, format, required work and assessments Review of research paper guidelines – detailed guidelines posted in this syllabus <u>Required Reading:</u> Globalization and the Multinational Firm – Chapter 1.</p>
Week 2	<p>International Monetary System & Balance of Payments Historical perspectives of the International Monetary System Gold standard Exchange rate regimes – pegs, fixed, floating, currency boards, etc. The Euro and European Monetary System Historical currency crises Balance of Payments <u>Required Reading:</u> Chapters 2 & 3</p>
Week 3	<p>Foreign Exchange Markets & Exchange Rate Determination Function & structure of the foreign exchange market Spot & forward rate determination Interest rate parity. Foreign exchange futures & options <u>Required Reading:</u> Chapters 5,6 & 7</p>
Week 4	<p>Foreign Exchange Exposure and Management Management of Transaction Exposure Management of Economic Exposure Management of Translation Exposure <u>Required Reading:</u> Chapters 8, 9, 10</p>
Week 5	<p>World Financial Markets & Institutions – part 1 International Banking and Money Market International Bond Market <i>Research paper 1st status updates</i> <u>Required Reading:</u> Chapters 11 & 12</p>
Week 6	<p>World Financial Markets & Institutions – part 2 International equity markets Interest Rate and Currency Swaps <u>Required Reading:</u> Chapters 13 &14</p>
Week 7	<p>International Portfolio Investment International diversification & portfolio risk reduction</p>

	Evaluation of risks & opportunities Effects of Changes in the Exchange Rate Home Bias <u>Required Reading:</u> Chapter 15
Week 8	Financial Management of a Multinational Firm – part 1 Foreign Direct Investment and Cross-Border Acquisitions International Capital Structure and the Cost of Capital <i>Research paper 2nd status updates</i> <u>Required Reading:</u> Chapters 16,17
Week 9	Financial Management of a Multinational Firm – part 2 International Capital Budgeting Multinational cash management. Research paper submission deadline. <u>Required Reading:</u> Chapters 18,19
Week 10	International Trade & Taxation Chapters 20,21, 4 International Trade Finance International tax environment and transfer pricing International corporate governance <u>Required Reading:</u> Chapters 20,21, 4
Week 11	Research Paper Presentations
Week 12	Review Session Review of quantitative problems Course review – what have we learned? Final Exam

Paper submission deadline: Week 9. Class presentations: week 11.

PRESENTATION

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 7 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

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 encouraged to identify research paper topics relevant to the localised Australian context. These research paper topics should be discussed with the lecturer in advance. Preparatory work would include developing good reading sources such as the Reserve Bank of Australia Publications and Speeches (www.rba.gov.au), *Financial Times* and the *Economist* to gain a better understanding of the localised context.

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.