

International Finance
Business Administration 454

Spring Semester, 2005

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Office hours: 11:30 –12:30 P.M. TT.
4:30 - 5:30 P.M. TT
Other times by appointment

Required: *International Financial Management*, Eun/Resnick, 3rd edition, McGraw Hill; I will assign three chapters in the Ross, Westerfield, Jordan text used in BA351 for additional background reading. Supplemental videos will be shown in class or will be on reserve in the library. Suggested readings: International finance topics in WSJ, Fortune, Forbes, Business Week.

Course Objectives:

1. To introduce you to international economic history, the current international environment and the relevant international theories describing foreign exchange rate determination.
2. To describe international capital markets, particularly focusing on the rapid global integration of money and capital markets.
3. To learn how multinational financial managers apply the theories of finance within the international environment to reduce the foreign exchange risk and lower the cost of capital.
4. To expose you to futures markets and options markets in foreign exchange.
5. To learn how multinational financial managers cope with the additional risks of foreign currency exposure and cross-border political risks as they take advantage of additional international return opportunities.
6. To expose you to contemporary issues which relate directly to international finance using a case approach.

Topics and Sequence of Course:

In our study of international finance we are basically revisiting the same financial theory introduced in BA351, but within a global context and with additional knowledge of worldwide foreign exchange and capital markets. The material presented will be a top-down approach. We begin with globalization and the multinational firm - why knowledge of international finance is important for all business managers, and in fact, is important for all citizens seeking to understand the forces of economic change.

We then will discuss the international monetary system, the balance of payments, the market for foreign exchange, and international parity relationships and forecasting foreign exchange rates. This first section will overlap with some of the material covered in international economics. It is a necessary background for the study of international finance.

The second segment of the course will address futures and option markets for foreign exchange. With this background we advance to address the management of a corporation's foreign exchange exposure. We will study how firms measure three types of foreign exchange exposure: economic, transaction, and translation risk. We will study how firms hedge risk using the aforementioned markets.

In the third segment will use the case approach to apply what we have learned to actual situations and three cases. We will also study international portfolio management and world financial markets and institutions. We will study international banking, the Euromarket, the international bond and equity markets, and the currency and interest rate swap market. These later chapters are largely informational.

Mode of Learning:

The class will be conducted as a combination of lecture and class discussion. A lecture will introduce most chapters. You are responsible for having read the chapter and any assigned supplementary readings before the lecture. In the first two segments, we will spend two class periods on each chapter. The second class period for a chapter will consist of going over the questions, problems and a mini-case for each chapter that are assigned at the end of the chapter. You will not be graded on the correctness of each

answer, but you will be expected to have completed the assignment. I will take up the assignment at the end of the class. Please have a red pen with you in each of these classes, so that you can make changes in your answers in class and enable me to see what portion of the work was done outside of class. You may work on your homework assignments with one or two other students. It is anticipated that in this course, much learning will take place outside the classroom. You do not have to work with the same group or with any group on each chapter's assignment. However, there are some ground rules:

- Every person's name who appears on the homework must have contributed to the assignment. It must represent a joint effort.
- Assignments may not be divided between students. In other words, do not divide up the assignment, gather the answers, and turn them in. Collaborative learning is the goal – not efficiency.
- Your name on the assignment indicates that you are pledging (Honor Code) that the above two criteria were met.

Each chapter assignment will receive a grade of 0 for “no or little” effort, 1 for “some” effort, and 2 for “good” effort. You have an opportunity to receive an additional point each class period for class participation. The sum of these points and your relative standing will be used to determine your homework/participation grade.

There will also be bonus opportunities similar to BA351. During most classes there will be opportunities for students to earn additional grade points (up to 5% of the original possible points) through short quizzes or problems given in class. Since these are bonus opportunities, and grades do not count against you, there are absolutely no make-ups on these, regardless of your reason for a class absence. Bonus opportunities are designed to encourage you to stay caught up and to attend class, having prepared the daily assignment. The material covered on the bonus opportunities will come from the day's assignment or from the previous class.

You will form teams for the purpose of writing three cases and presenting one. All members of the group will receive the same grade.

Grading:

The grade will be based on the following assignments:

Test 1 (covering Chapters 1-5)	20%
Test 2 (covering Chapters 9,12-14 plus RWJ chapter)	20%
Final Exam (comprehensive, but concentrating on Chapters 12-14)	20%
Homework and class participation	20%
Group project	<u>20%</u>
	100%

The tests and exams will include both essay and problems. They will cover all assigned material , including the assigned videos, and all class discussions. **Essays will be typed in the computer lab.**

Excessive absences (more than three) from class will result in a lower final grade: – 2% for each day missed. You should explain absences from class to me by e-mail so that I can keep a record.

Honor Code:**Tests/exam:**

It is a violation of the Rhodes Honor Code to cheat. This includes the use any material from previous students of this class, your own notes or any information from whatever third-party source during a test/exam.

Group project:

Violations of the Honor Code include discussing your answers to the group project with anyone outside your group, and signing the Group Project indicates each member contributed equally to the result. Free-rider and misrepresentation of participation in the project should be reported by the other group members.

Homework:

Homework answers may be compared and revised prior to class, but only after both parties have done the assignment separately. Homework is an opportunity to learn, so I do not want to prevent your comparison of answers and teaching each other. but free-riding and misrepresenting your work is an Honor Code violation that should be reported my other members of the group. You should be prepared to explain to the class any homework answer that you have. See homework ground rules above.

DAY	DATE	COMMENT
Thurs	January 13	Introduction/Chapter 1
Tues	18	Chapter 1 – Homework assignment: All questions and mini-case; ignore appendix
Thurs	20	Chapter 2 - Read
Tues	25	Chapter 2 - Homework assignment: All questions and mini-case
Thurs	27	Chapter 3 - Read; ignore appendix
Tues	February 1	Chapter 3 - Homework assignment: All questions and mini-case
Thurs	3	Chapter 4 - Read
Tues	8	Chapter 4 - Homework assignment: All questions, problems, and mini-case
Thurs	10	Chapter 5 - Read
Tues	15	Chapter 5 - Homework assignment: All questions and problems; no mini-case
Thurs	17	TEST 1
Tues	22	Read Options Chapter in RWJ
Thurs	24	Chapter 9 – Read
Tues	March 1	Chapter 9 – Homework assignment: All questions, problems 1-6 and mini-case
Thurs	3	Chapter 12 – Read and answer questions
Tues	15	Chapter 12 – Homework assignment: All problems, internet exercise and mini-case
Thurs	17	Chapter 13 – Read and answer questions
Tues	22	Chapter 13 – Homework assignment: All problems and mini-case
Tues	29	Chapter 14 – Read and answer questions
Thurs	31	Chapter 14 – Homework assignment: All problems and mini-case
Tues	April 5	TEST 2
Thurs	7	Chapter 6&7 – Read and answer questions and problems
Tues	12	Case 1 – Merrill Electronics - All groups write, two groups present
Thurs	14	Chapter 8&9 – Read and answer questions and problems
Tues	19	Case 2 –Emerson Electric - All groups write, two groups present
Thurs	21	Chapter 10&11 – Read and answer questions and problems
Tues	26	Case 3 – Aguas Minerales - All groups write, two groups present
Thurs	28	Review for exam

Exam dates:

You may select **any of the three times**.

Monday, May 2 5:30 P.M.
Tuesday, May 3 1:00 P.M.
Friday, May 6 5:30 P.M.