INTERNATIONAL MONEY AND FINANCE (FIN 456)
Syllabus 2016

Course Overview
Title: International Money and Finance – FIN 456
Hours: 50
Number of Credits: 5
Prerequisites: None
Term: Winter, Spring, Summer
Language: English
Instructor: Manish Singh
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Course Description
This course focuses on the two essential elements of international finance, often called "multinational" finance because in reality the flow of funds across national boundaries is conducted almost entirely by large corporations and large banks with international operations. The difference between this context and domestic financial operations is that international operations involve more than one currency unit, which may be actual currencies issued by national governments, or "basket" currencies that are artificial mixtures of actual currencies. Although banks can of course operate in these "foreign exchange" markets on their own account, our focus in this course will be on non-bank companies which utilize the services of banks.

The recommended textbook for this course is L. L. Jacque (LLJ), International Corporate Finance (Wiley, 2014), which is a massive tome that covers more than we will be able to, but also covers all the topics that we have selected. Readings in LLJ will be assigned by the instructor during the course. Other selected readings may also be assigned as handouts as the term progresses. Our plan is to begin with an overview of the subject, followed by the development of a "micro" point of view, mirroring a typical MNE's involvement in foreign exchange ("forex") markets. This leads us to an exposition of the "macro" view, with its emphasis on the effects of economic policies on exchange rates, as set out in the following syllabus.
**Learning Outcomes**

The course gives students a framework to think about a wide variety of issues from a multinationals’ perspective in international finance: the global capital market architecture, the current account; the determination of exchange rates; hedging country, credit and currency risks, relationship between exchange rates and inflation; monetary and fiscal policy under flexible and fixed exchange rates. In addition to providing basic analytical tools essential for managerial decision making, the course focuses on a number of relevant current issues: the global financial crisis, the current capital flow, foreign currency borrowings, European Monetary Union, and sovereign debt crisis.

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**Assessment Criteria**

Classes will typically meet twice a week for approximately 1 1/2 to 2 hrs per session. Attendance is mandatory and unexcused absences will negatively effect final grade.

Assessment will include:

- 75% of the overall class grade is based on a midterm exam (normally between weeks 5 and 6) and a final exam at the end of classes, as determined by the instructor.
- 25% of the overall class grade is based on the term paper - generally, between a minimum of six and a maximum of fifteen pages excluding any graphs or diagrams - on a topic (usually an MNE)

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**Weekly sessions:**

1. Overview of International Monetary Environment (Chapter 1 & 2, LLJ)
   a. Globalization: Past, present and future
   b. The rise of multinational corporations
   c. Introduction to International Corporate Finance
   d. Exchange rate regimes: Fixed vs floating
   e. Alternate exchange rate regimes

   Discussion on the Purchasing Power Parity hypothesis.

2. A brief history of International Monetary System (Chapter 3)
   a. Chronology of International Monetary System
   b. The Gold Standard
   c. The Bretton Woods System
   d. Managed floating exchange regimes

2
A primer on Euro
   a. European Monetary System and the European Currency
   b. European Monetary and Economic Union (EMU)
   c. The birth of Euro: A historical perspective

Discussion on Emerging Markets Currency Regimes (special focus on BRICs)

3. The Balance of Payments (Chapter 4)
   a. National income accounting
   b. Fundamentals of Balance of International Payments Accounting
   c. Current vs Capital Account
   d. Official Reserve Accounts
   e. Balance of Payments and the Foreign Exchange market

Discussion on Debtor vs Creditor nations with special focus on Heavily Indebted Poor Countries (HIPC)

4. Foreign Exchange Markets and the Currency Derivatives (Chapter 5, 6 & 7)
   a. Working with exchange rates and cross-rates
   b. Interest rate parity
   c. Hedging using forward exchange rates
   d. Commoditized "futures" markets and global exchange trading
   e. Hedging with options: short and long "puts" and "calls": examples and exercises

5. Forecasting exchange rates
   a. Methods in short- and long-run contexts
   b. Purchasing power parity (PPP) revisit
   c. The International Fisher Effect

Discussion on Foreign Direct Investment (FDI): swaps as a longer-term hedge and the role of the Eurodollar

6. International Financing (Chapter 8, 9 & 10)
   a. Global Capital Market Architecture
   b. Financial Intermediation: Major Actors
   c. Financial Decision: The cost of capital - Equity vs Debt
   d. Foreign Currency Borrowings
   e. Refinancing

Discussion on External Commercial Borrowings: Causes and Consequences

7. International Trade Financing (Chapter 11)
   a. Brief history of International trade
   b. Credit, country and currency risk
c. Mechanisms of trade financing
   d. Financing exports

Discussion on Government-Sponsored Export Credit Agencies

8. Managing foreign exchange risk (Chapter 14 & 15)
   a. The building blocks of foreign exchange risk management
   b. Definition and objectives
   c. Why hedging the currency risk is so relevant?
   d. Forecasting Exchange Rates

Practical exercises on Technical vs Econometric modelling based approaches

9. Transaction, Translation and Economic Exposures (Chapter 16,17 &18)
   a. Definition
   b. Measuring different exposures
   c. Hedging exposures

10. Financial Crisis and its effect: A European Perspective
    a. European Banking Crisis
    b. European Sovereign Debt Crisis
    c. Causes and consequences
    d. How multinationals deal with the turmoil?

Discussion on Spain in the aftermath of the Global Financial Crisis.

**Main Readings**


**Additional readings**

Useful links

- The Economist.
- Financial Times.
- Journal of International Economics.