

**Course Name : International Finance**

Credits	3.0
Faculty Name	Soumya G Deb
Program	MBA-BM
Academic Year and Term	2015-17 batch Term -4

**1. Course Description:**

Businesses are operating in an increasingly interconnected global environment. Most businesses today are either directly or indirectly exposed to international competition. Managing such businesses requires understanding of currency risks and global financial environment. The objective of this course is to provide students with an in depth knowledge of these issues. The main topics covered in this course are: forex markets, international Parity conditions, forex risks, currency derivatives and hedging issues, issues with currency investment strategies, issues with cross border financing decisions and cross border investment decisions.

Welcome to the course !!

**2. Student Learning Outcomes :**

After completing this course students should be able to

- Demonstrate basic understanding of foreign exchange market and exchange rates
- Demonstrate basic understanding of how to use foreign exchange derivatives and other techniques to manage foreign exchange exposures of firms.
- Demonstrate basic understanding of the issues pertaining to multinational financing and investment decisions
- Demonstrate critical and analytical skills wherein they should be able to make sense out of a mass of information to address relevant issues pertaining to international finance theory.

### **3. Course Learning resources :**

#### **i). Text Book:**

International Financial Management: **Eun and Resnick** (latest Edition), **Tata McGraw-Hill**

#### **ii). Further Readings:**

##### **A. Books :**

- i. Multinational Financial Management: Shapiro (Eighth Edition), John Wiley & Sons
- ii. Multinational Business Finance: Eiteman, Stonehill, Moffett and Pandey (Tenth Edition), Pearson Education
- iii. International Finance Contemporary Issues: Levi (Fourth / Third Edition), Routledge Paperback edition
- iv. International Corporate Finance: Madura (Eighth Edition), Thomson South-Western
- v. Exchange Rates and International Finance: Copeland (Fourth Edition), 2007, Pearson Education
- vi. International Financial Management: Apte (Fourth Edition), Tata McGraw Hill
- vii. Multinational Finance: Butler (Second Edition), Thomson South-Western College Publishing
- viii. International Finance: O' Brian (Second Edition), Oxford University Press

##### **B. Handouts :**

- A summary of the class discussion for each session, will be made available at the end of every class or may be before the class so that you can read it and come prepared in class.

**C. Research papers :** ( only for those students who are interested to have a deeper understanding of the issues and /or are interested to pursue research in international finance later).

##### **• On Empirical Models of Nominal Exchange Rates:**

- i) Mark, N. 1995. Exchange Rates and Fundamentals: Evidence on long-horizon predictability. American Economic Review 85: 201-218.
- ii) Bacchetta P. and E. van Wincoop, "Can Information Heterogeneity Explain the Exchange Rate Determination Puzzle?", NBER WP9498, Feb 2003
- iii) Meese R. and K. Rogoff, "Empirical Exchange Rate Models of the Seventies", Journal of International Economics 14 3-24, 1983.

- **On Long Run Real Exchange Rates, Terms of Trade and Expenditure Switching.**

- i) Engel C. and J. Rogers, "How Wide is the Border?" American Economic Review, 1996 Dec, pp1112-1125;
- ii) Imbs J, H. Mumtaz, M. Ravn and H. Rey, "PPP Strikes Back: Aggregation and the Real Exchange Rate", QJE 2005
- iii) Rogoff K. "The Purchasing Power Parity Puzzle", Journal of Economic Literature, Vol. 34, No. 2. (Jun., 1996), pp. 647-668
- iv) Engel C. "Accounting for US Real Exchange Rate Changes," Journal of Political Economy 107(3), June 1999, pages 507-38

- **On International portfolio diversification in theory and practice**

- i) French, K. and J. Poterba (1991): "Investor diversification and international equity markets", American Economic Association Papers and Proceedings 81, 222-226
- ii) Van Wincoop, E. (1999): "How big are the potential welfare gains from international risk sharing?", Journal of International Economics 47, 109-135.
- iii) Ahearne, A., W. Grier and F. Warnock (2004): Information costs and home bias: an analysis of U.S. holdings of foreign equity", Journal of International Economics 62, 313-336
- iv) Imbs, J. (2004): "The real effects of financial integration", CEPR Discussion Paper 4335.

- **On Equity and Bond Home Bias, and International CAPM**

- i) Lewis K., "International Home Bias in International Finance and Business Cycles", Journal of Economic Literature 37, June 1999, 571-608.
- ii) Dumas, B and B. Solnik, "The world price of foreign exchange risk", Journal of Finance, 1995,. Vol 50 (2) p 445-79.
- iii) Pavlova A and R. Rigobon, "Asset Prices and Exchange Rates", mimeo Sloan School, 2005

- iv) Obstfeld M. and K. Rogoff, "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?", NBER Macro Annual 2000, also NBER working paper 7777.

• **On Risk Sharing and International Financial Markets**

- i) Brandt M., Cochrane J. and P. Santa Clara, 2004. "International Risk Sharing is better than you think (or exchange rates are much too smooth) ", NBER WP 8404.
- ii) Van Wincoop, E, "How Big are Potential Gains from International Risk Sharing?" Journal of International Economics 47, 1999, 109-135.
- iii) Cole H. and M. Obstfeld, " Commodity Trade and International Risk Sharing: How much do Financial Markets Matter?", Journal of Monetary Economics 28 (August):3-24, 1991.
- iv) Lucas R., "Interest Rates and Currency Prices in a Two-Country World", Journal of Monetary Economics, 10, 335-59, 1982.

• **On Financial Integration and Globalization**

- i) Gourinchas P-O. and O. Jeanne "On the Benefits of Capital Account Liberalization for Emerging Economies".
- ii) Acemoglu D. and J. Ventura, "The World Income Distribution", Quarterly Journal of Economics, May 2002
- iii) Edison, H., M. Klein, L. Ricci and T. Sloek, "Capital Account Liberalization and Economic Performance: Survey and Synthesis", NBER Working paper 9100, August 2002
- iv) Bekaert G., C. Harvey and C. Lundblat, "Does Financial Liberalization Spur Growth", Duke University, May 2002.

• **Exchange rate regimes and monetary policy choices**

- i) Calvo, G. and C. Reinhard (2002): "Fear of floating", Quarterly Journal of Economics 117(2), 379-407.
- ii) Hausmann, Ricardo, Michael Gavin, Carmen Pages, and Ernesto Stein. (1999). Financial Turmoil and the Choice of Exchange Rate Regime. Inter-American Development Bank, Research Department Working Paper No. 400.

- iii) Williamson, John. (2000). Exchange Rate Regimes for Emerging Markets: Reviving the Intermediate Option. Institute for International Economics, Washington D.C.
- iv) Calvo, G. and R. Mishkin (2003): The mirage of exchange rate regimes for emerging market countries”, Journal of Economic Perspectives 17, 99-118.

#### **D. Magazines and Newspapers:**

[The Economic Times](#)

[Financial Express](#)

[The Economist](#)

[Bloomberg](#)

[The Wall Street Journal](#)

[The Financial Times](#)

#### **E. Useful Links on Exchange Rates and International Finance**

[Exchange Rates :](#)

[Investopedia](#)

[Finance Glossary](#)

[Articles on Finance Topics](#)

[Summarized Research Papers](#)

[Corporate Governance](#)

[Business Reference Services](#)

[NBER Working Papers on International Finance and Macroeconomics](#)

[Exchange Rate - Wikipedia](#)

[IMF World Economic Outlook](#)

[Google News Index on Exchange Rates](#)

[Bank for International Settlements](#)

[Purchasing Power Parity](#)

#### **4. Tentative session plan**

Session	Topics to be covered	Chapter(s)
1,2,3	<ul style="list-style-type: none"> <li>• Introduction</li> <li>• Exchange Rate quotations</li> <li>• Determination of Exchange Rates</li> <li>• Case/Minicase discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Eun and Resnick: Chapter 5</li> <li>• Eiteman et al.: Chapters 4, Shapiro: Chapter 2</li> </ul>

4,5	<ul style="list-style-type: none"> <li>• Balance of Payments Domestic Economy and World Trade</li> <li>• Case/Minicase discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Eun and Resnick: Chapter 3</li> <li>• Eiteman et al.: Chapter 3, Shapiro Chapter 5</li> </ul>
6,7,8,9	<ul style="list-style-type: none"> <li>• International Parity Conditions</li> <li>• Case/Minicase discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Eun and Resnick: Chapter 6</li> <li>• Eiteman et al.: Chapter 6</li> <li>• Shapiro: Chapter 4</li> </ul>
10	<ul style="list-style-type: none"> <li>• <u>Tutorial 1</u></li> <li>• Numerical problem solving involving topics covered in sessions 1-9 and Case discussion</li> </ul>	
11-12-13	<ul style="list-style-type: none"> <li>• Currency Forward, Futures, Option, Swap</li> <li>• Case/Minicase discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Eun and Resnick: Chapter 7</li> <li>• Eiteman et al.: Chapter 5</li> <li>• Apte: Chapters 9, 10</li> <li>• Shapiro: 7, 8, 9</li> </ul>
14,15,16	<ul style="list-style-type: none"> <li>• Measuring and Managing Foreign-Exchange Exposure</li> <li>• Case/Minicase discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Eun and Resnick: Chapter 8,9,10</li> <li>• Eiteman et al.: Chapter 8,9,10</li> <li>• Shapiro: 10, 11</li> </ul>
17-18	<ul style="list-style-type: none"> <li>• International Capital Budgeting</li> <li>• Case/Minicase discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Eun and Resnick: Chapter 17,18</li> <li>• Shapiro : 14, 17</li> </ul>
19	<ul style="list-style-type: none"> <li>• Financing International Trade</li> <li>• Case/Minicase discussion</li> </ul>	<ul style="list-style-type: none"> <li>• Eun and Resnick: Chapter 20</li> <li>• Shapiro : Chapter 18</li> </ul>
20	<ul style="list-style-type: none"> <li>• <u>Tutorial 2</u></li> <li>• Numerical problem solving involving topics covered in sessions 11-19 and Case discussion</li> </ul>	

**5. Evaluation :** The evaluation process is divided into three components.

- Quizzes/mid-term: 30%:** May be open book or closed book (that would be announced in class).
- Assignments : 40%** Assignments will be typically group projects wherein I will ask the individual groups to collect some data from various sources and do an empirical analysis about a research question pertaining to international finance theory or

practice or I may ask some group to read, critically analyze, understand and present a published research paper ( may be from the ones mentioned above or from outside that list)

- c) **End Term: 30%:** The end term examination will be a closed book one based on topics covered during the post mid-term sessions.

### 6. Academic Integrity:

Students involved in academic dishonesty will receive a **ZERO** grade on the particular component in which the violation occurred. Academic dishonesty consists of misrepresentation by deception or by other fraudulent means such as copying or use of unauthorized aids in tests, talking during in-class examinations; aiding another student's dishonesty; and giving false information for the purpose of gaining credits.