

INTERNATIONAL FINANCE

dr Stanisław Kubiela

Lecture; 30 hrs

Fall semester

Course outline:

The course is designed to learn the main issues in international financial markets and management of international finance. Topics to be covered are: operation of exchange market and exchange rate determination models, methods of modern financial engineering, exchange risk hedging, optimal capital structure of multinational corporation, international capital market and investing in foreign assets.

Course outline:

1. Foreign exchange market

- 1.1 The foreign exchange market
- 1.2 Spot and forward contracts
- 1.3 Currency derivatives: futures, options and swaps
- 1.4 Exchange rates quotations and contract settlements
- 1.5 Cross rates and intermarket arbitrage

2. Parity conditions in international finance

- 2.1 Purchasing power parity
- 2.2 International Fisher relation
- 2.3 Interest rate parity /covered, uncovered, real/
- 2.4 Foreign exchange expectations

3. Foreign exchange determination

- 3.1 Exchange rate regimes
- 3.2 Balance of payments approach
- 3.3 Monetary approach
- 3.4 Portfolio approach
- 3.5 Currency crises

4. Currency options

- 4.1 Currency option contracts and quotations
- 4.2 Intrinsic value and time value of an option
- 4.3 Currency option pricing
- 4.4 Put-call option parity
- 4.5 Options, futures and swaps valuation

5. Foreign exchange exposure and hedging

- 5.1 Currency position and liquidity position
- 5.2 Foreign exchange exposure: types and measurement
- 5.3 Managing transaction exposure and optimum hedge ratio
- 5.4 Managing economic exposure
- 5.5 Managing translation exposure

6. Multinational financial system

- 6.1 Repositioning funds and financial arbitrage
- 6.2 Inter-company loans
- 6.3 Transfer pricing
- 6.4 Taxation and global remittance policy

7. International banking

- 7.1 International financial centres and offshore banking
- 7.2 Eurocurrencies and euromarkets
- 7.3 Short-term financing instruments and options
- 7.4 Effective cost of international borrowing

8. Long-term finance

- 8.1 The multinational's optimal capital structure
- 8.2 International equity markets and instruments
- 8.3 International debt instruments
- 8.4 Hedging interest rate exposure
- 8.5 International swap transactions

9. International investment

- 9.1 Country risk and international cost of capital
- 9.2 Portfolio investment and diversification
- 9.3 Foreign direct investment and multinational corporation
- 9.4 Multinational capital budgeting
- 9.5 Foreign project appraisal: real option analysis

10. International capital market

- 10.1 The case for international diversification
- 10.2 International capital asset pricing model
- 10.3 Global financial market integration
- 10.4 International capital mobility

Required readings:

- D. Eiteman, A. Stonehill, M. Moffet, *Multinational Business Finance*, 8th ed., Addison-Wesley, New York 1998
- C.P. Hallwood, R. MacDonald, *International Money and Finance*, Blackwell Publishers, Oxford 2000
- P. Krugman, M. Obstfeld, *International Economics. Theory and Policy*, 2nd ed., Harper Collins, New York 1991
- A.C. Shapiro, *Multinational Financial Management*, 5th ed., Prentice-Hall Inc., London 1996

Suggested readings:

- A. Buckley, *Multinational Finance*, 3rd ed., Prentice Hall, New York 1996
- D.K. Das, *International Finance. Contemporary Issues*, Routledge, London 1993
- W. Ethier, *Modern International Economics*, 2nd ed., W. W. Norton & Company, New York 1988
- J. C. Hull, *Options, Futures and Other Derivatives*, 3rd ed., Prentice_Hall Inc., Upper Saddle River 1997
- P. R. Krugman, *Currencies and Crises*, MIT Press, Cambridge Mass., 1995.
- F. L. Rivera-Batiz, L.A. Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, Macmillan, New York 1994
- B. Solnik *International Investments*, 3rd ed., Addison-Wesley, New York 1996

Assessment:

Written examination (problem solving and exercises).