

***International Finance***  
***CIMBA Italy Programs***  
***Fall 2015***

**Visiting Professor Michael Palmer**

**University of Colorado, Leeds School of Business, Boulder, Colorado**

**Kansai Gaidai University, Asian Studies Program, Osaka, Japan,**

**Ansbach University of Applied Sciences, Ansbach, Germany**

**Email Address: Michael.palmer@colorado.edu.**

**DEO contact information: Finance: Erik Lie erik-lie@uiowa.edu**

***Course Description:***

This course will cover the issues facing global companies and global investors as they participate in international financial markets. The course will look at global risk factors which companies and investors face and the possible tools for managing those risks. As such we will examine such risk factors as country risk, exchange rate risk, geopolitical risk, and contagion risk.

Close attention will be given to the concept and measurement of risk in financial markets. Risk and return comparisons between the United States and Europe (and the rest of the world) will be presented. We will examine the application of international diversification as a risk reducing strategy.

Globalization of financial markets will be a major theme of the course throughout the semester. As such we will examine the impact of financial market globalization on both businesses and investors. In addition, we will explore the opportunities and challenges of international portfolio diversification for investors.

We will also pay close attention to current events during the course as they impact upon global financial markets. We will monitor exchange rate changes, equity and bond market moves, important country data, and key central bank decisions. Many of these events will form the basis for class lectures and discussions.

One major focus of the class will be the foreign exchange markets. In this regard we will discuss bid and ask pricing in these markets and the role of market maker banks. We will examine specific exchange rate forecasting models. We will look at short-term technical approaches, such as the Bollinger Band, and asset choice models as well as longer term models such as the Purchasing Power Parity. We will attempt specific forecasts with these models.

The course will be a combination of lectures and classroom discussion. On line readings from selected business publications such as Bloomberg and the Economist and short case that I have written, will be assigned during the term.

**Course Prerequisites:**

The University of Iowa Department of Finance prerequisites for this course include:

- Introduction to Financial Accounting
- Managerial Accounting
- Principles of Microeconomics
- Principles of Macroeconomics

**Text Book:**

International Financial Management by Madura & Fox, 2nd Edition, South-Western, Cengage Learning, 2011. ISBN 978-1-4080-3229-9

Note: this book will be distributed upon arrival at the CIMBA campus in Paderno del Grappa and does not need to be purchased in advance.

**Grading:**

Your grade for this course will be based on 4 exams. Exams will include multiple-choice questions from lectures, assigned readings and the textbook, essay questions and calculation questions. Calculators will be needed for some of these questions.

Exams will be closed note and closed book. Exams and quizzes will be given during the regular class meeting time. The final exam will be cumulative; exams 1 through 3 will not be cumulative.

Final course grades will be determined as follows:

Exam 1:	10%	Date: TBA
Mid-Term Exam:	20%	Date: TBA
Exam 2:	30%	Date: TBA
Final Exam:	40%	Date: TBA

“It is expected that final grade distribution will approximate the recommended guidelines of the Tippie College of Business, Department at the University of Iowa, which is 25% A’s, 35% B’s, 30% C’s, and 10% D’s. Plus and minor grades may be given.

**Attendance:**

Attendance at all classes and CIMBA sanctioned activities is MANDATORY. All unexcused absences will have the following consequences: a. 1st absence will result in a loss of a 1/3 of a letter grade in that class b. 2nd (cumulative) absence will result in a loss of an entire letter grade in that class c. 3rd (cumulative) absence will result in a dismissal from the program Absences due to illness require a note from the CIMBA Staff. If a student is sick and cannot attend class, he/she must inform the CIMBA Staff immediately. Failure to do so will result in an unexcused absence.

### **Office Hours:**

I will be available for at least 30 minutes after class for the purpose of answering your questions. Once the semester begins, I will determine and announce regular office hours. The location (my office) for these office hours will be determined once we arrive in Italy. I also anticipate holding some occasional help sessions to help prepare for exams and quizzes.

### **Lecture Topics:**

The following lecture topics will constitute the lecture structure for this course. The power point slides for each lecture will be available online on my course site in advance of the actual lecture. You are encouraged to print these slides in advance or bring your laptops to class to follow the slides during the lectures. Given that we will be discussing current events as part of this course, the pace of the class will determine the depth of each topic we will cover.

#### ***Lecture 1: Introduction to International Finance and International Financial Markets***

In this first lecture, we will discuss some important concepts in international finance and financial markets. We will examine the impact of globalization on investors and business firms. We will discuss the risk return relationship and the risk on – risk off model of global financial markets. We will also review some of the important events, relationships and trends in the world's financial markets over the period 2002 to 2014.

#### ***Lecture 2: Global Risk and Valuation Models for a Multinational Business Firm***

In Lecture 2 we expand our discussion of the globalization process for business firms and then explore global risk factors facing global companies. Lastly the lecture will develop a valuation model, utilizing the concept of present values, for global companies that will incorporate global risk factors.

#### ***Lecture 3: Understanding Risk as It Relates to Finance with Focus on Equity Markets***

In Lecture 3 we will explore the concept of risk and apply it to financial assets. We will examine the underlying sources of financial risk and suggest ways of quantifying risk. We will conclude this lecture by exploring risk measures for common stock, including betas and standard deviations.

#### ***Lecture 4: The Application of Risk to Bonds and the Bond Market***

In Lecture 4 we will expand our discussion of risk to bonds and the bond market. This lecture will also introduce you to the yield curve and examine how the yield curve might be used to forecast future economic activity.

#### ***Lecture 5: Strategies for Managing Financial Market Risk***

In Lectures 3 and 4 we discussed the many risks facing investors in common stocks and in bonds. In this lecture we will discuss some risk management strategies for the equity and bond markets. We will examine the application of

international diversification to manage systematic risk. We will also look at the use of credit default swaps to manage the risk of bond defaults.

***Lecture 6: The Role of Expectations in Financial Markets***

This lecture will explore how expectations shape financial asset prices. As part of our discussion we will review the Efficient Market Hypothesis and the impact of surprises on financial asset prices. We will also discuss Behavioral Finance as it relates to financial market pricing.

***Lecture 7: The Structure Foreign Exchange Market***

In this lecture will examine different foreign exchange regimes and examine conduct an empirical analysis of the Impact of different foreign exchange structures on exchange rates along with the implications of these regimes for global investors and multinational firms.

***Lecture 8: How the Foreign Exchange Market Works***

This lecture will examine the role of global market maker banks in providing foreign exchange quotes to end users. We will discuss bid and ask prices and look at real time market quotes. We will also review the candlestick charting technique.

***Lecture 9: The Foreign Exchange Market***

In this lecture, we will examine the foreign exchange market: What it is, where it is, how large it is? In addition we will examine types of transactions (spot and forward) occur and how are currencies quoted (American and European). We will also examine the forward exchange rate and how it is determined.

***Lecture 10: Forecasting Foreign Exchange Rates***

This final lecture examines various frameworks for forecasting foreign exchange rates. We will consider both a short term and a longer term forecasting horizon. We will explore fundamental and technical approaches to forecasting. We will attempt to forecast the euro and other currencies on the basis of appropriate forecasting models.

***Course Learning Objective:***

1. To develop an understanding and appreciation of the critical financial issues facing managers of international business firms and global investors in today increasingly globalized world.
2. To develop a way if thinking about and analyzing the complex relationships of economics and financial markets around the world.
3. To develop an understanding and appreciation of some of the current critical issues facing financial markets (and economies).
4. To introduce students to statistical tools to evaluate risk and return measures and econometric models used to forecast exchange rates.

5. To introduce students to important and useful on line web sites and publications in the field of international finance.

***Important Web-sites:***

1. You are encouraged to link to [www.Bloomberg.com](http://www.Bloomberg.com) everyday day for current financial news as well as global financial market data.
2. As we will be discussing exchange rates throughout the term, one important online site is <http://www.oanda.com/currency/live-exchange-rates/EURUSD/> Through this site we can view and discuss current real time exchange rate quotes.

***Phones and Laptops:***

Please turn off all phones and laptops before entering class. Also, because it is very distracting to students seated nearby, please refrain from using a laptop computer during class, unless otherwise notified by the professor (e.g., when covering power point slides or linking to on-line sites). Communication devices of any type are prohibited during quizzes and examinations. Please refrain from checking or sending an email or text message during class.

***Information Regarding Professor Michael Palmer:***

Professor Palmer taught at the University of Colorado, Leeds School of Business, from 1967 to 2013 when he retired. During that time, he taught classes in international finance, financial markets, investments, portfolio management, and corporate finance. His research focused on sovereign debt (developing models for forecasting country defaults). He was also the academic director of the Leeds' International Finance summer study abroad program in London, England for 27 years. He has taught in various countries, including China and participated four times on Semester at Sea. He is a visiting faculty member at Kansai Gaidai University in Osaka Japan where he teaches courses in international capital markets and international business. In 2013, he joined the summer faculty at Ansbach University of Applied Sciences, in Ansbach, Germany, where he teaches classes in international finance.

Feel free to stop by his office. Finally, he prefers that you call him Michael, assuming you are comfortable doing so.

***Important Additional Course Information:***

- Administrative home of the course is the Tippie College of Business The Tippie College of Business is the administrative home of this course and governs matters such as the add/drop deadlines, the second-grade-only option, and other related issues. Different colleges may have different policies.

- University policy specifying that students are responsible for all official correspondence sent to the UI email address (@uiowa.edu) University policy specifies that students are responsible for all official correspondences sent to their University of Iowa e-mail address (@uiowa.edu).
- Academic fraud: If I determine that any assignment was not written solely by the student whose name is on the project, the student will receive a zero (0) for the assignment and may receive an "F" for the class. All incidents of cheating will be reported to the Senior Associate Dean and the student may be placed on disciplinary probation for the remainder of his or her enrollment at the University of Iowa. Honor Code for the Tippie College of Business will determine the appropriate appeal process.
- Accommodations for students with disabilities: A student seeking academic accommodations such as a modification of seating, testing, timing, etc. should first register with Student Disability Services, then contact Shannon Lizakowski (Shannon-lizakowski@uiowa.edu) in the CIMBA Office to make further arrangements. See <http://sds.studentlife.uiowa.edu> for more information.
- Description of procedures for student complaints: Student concerns regarding this course should first be discussed with me, the faculty member teaching this course. If we can't resolve the complaint, you may contact the CIMBA Director, Brandelle Unkrich (319-335-1041, brandelle-unkrich@uiowa.edu). The Director will review the details of the complaint and involve the Associate Dean of the Undergraduate Programs, as needed.
- University sexual harassment policy: Sexual harassment subverts the mission of the University and threatens the well-being of students, faculty, and staff. All members of the UI community have a responsibility to uphold this mission and to contribute to a safe environment that enhances learning. Incidents of sexual harassment should be reported immediately. If you feel that you are being or have been harassed or you are not sure what constitutes sexual harassment, we encourage you to visit the University website, [www.sexualharassment.uiowa.edu/index.php](http://www.sexualharassment.uiowa.edu/index.php), and to seek assistance from the CIMBA Director, Brandelle Unkrich, at 319-335-1041 or brandelle-unkrich@uiowa.edu.