



## **International Finance**

FIN: 4240

Fall 2018

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### **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 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 other countries will be presented.

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. We will look at cross border borrowing arrangements for companies. In addition, we will explore the opportunities and challenges of international portfolio diversification for investors.

While the course will be global in scope, particular attention will be paid to European financial market and economic issues. We will pay close attention to current events during the semester. 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.

We will examine specific exchange rate forecasting models for some of the world's major currencies. In that regard we will look at short-term approaches, such as the Asset Choice Model as well as longer term models such as the Purchasing Power Parity. We will attempt specific forecasts with these models.

The format of this course is primarily lecture and discussion, with real-world in class assignments to help you make the linkage with global business firms and global investing as well as to gauge your understanding of the material.

Prerequisites: Financial Management (FIN: 300).

Required Supplies: Basic Financial Calculator.

### **Course Objectives**

1. To develop an understanding and appreciation of the critical financial issues facing managers of international firms and global investors in today increasing globalized world.
2. To develop a way if thinking about and analyzing the complex relationships of economies and financial markets around the world.

3. To develop an understanding and appreciation of current issues in the area of international finance through the introduction of on line web sites and readings and discussions of current articles in the financial press.

### **Course Materials & Resources**

The textbook for this course is International Financial Management, by Madura and Fox 2nd Southwestern-Cengage. 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.

Articles and prepared readings (and cases) will be posted on ICON.

### **Grading**

Your grade for this course will be based on three exams. Exams will consist of essay questions from lectures and assigned readings. Questions will be designed to test your ability to connect concepts covered in class with real world events. Some questions will involve problem solving. A calculator will be needed for this class for these exams.

Final course grades will be determined as follows:

Exam 1:	20%
Mid-Term Exam:	30%
Final Exam:	50%

Class participation will be strongly encouraged, but will not be a factor in determining final grade. The dates for these exams will be provided during the first week of class.

Letter grades will be based initially on a 90%, 80%, 70%, 60% format. Adjustments to this format will be made during the semester as exams are given. Plus and minus grades might be given.

The final grade distribution will be influenced by 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. Please see UI Policies on the CIMBA website: <http://cimbaitaly.com/ui-policies/>

### **Class Schedule**

The following lecture topics will constitute the lecture structure for this course. While the topics are listed by week, the time frame for coverage may be different depending upon class and lecture circumstances.

#### ***Week 1 Lecture: Introduction to International Finance***

This lecture will review some of the important issues in global financial markets today. In addition, this lecture will introduce you to the Risk On Risk Off (RORO) model that we will refer to throughout the semester as a way of explaining movements in global asset prices. We will also look at various measures of market risk, such as the CBOT VIX index and specific risk adverse assets, such as the Japanese yen and gold.

This lecture will also examine the potential opportunities and risk factors for global companies and global investors as they operate and invest across national borders. For global investors, we will examine potential opportunities such as higher returns and diversification benefits and potential risk factors such as currency risk, sovereign credit risk, and inflation risk.

As for global companies we will discuss potential opportunities such as expanding markets, increasing shareholder value, financing and lowering its weighted average cost of capital as well as some of the potential risks they face today, such as

unanticipated social, political and economic instability (e.g., country risk stemming from events such as Brexit and recent national elections), the danger posed by cyber attacks, and unanticipated movements in foreign exchange rates.

***Week 2 Lecture Topic: What Determines Financial Asset Prices?***

In lecture 2 we examine the models for explaining asset prices. The lecture begins with the 1950s Adaptive Model of Asset Prices through Eugene Fama's Informationally Efficient Market Model of the 1970s. This lecture will explore how expectations shape financial asset prices and the impact of surprises on financial asset prices.

***Week 3 Lecture Topic: Observations on Risk***

This lecture will examine historical return data (interest rates, exchange rates and equity prices) as an introduction to risk. We will examine some of the assumptions about risk and the use of standard deviation to measure and evaluate risk. We will use Excel to calculate standard deviations.

***Week 4 Lecture Topic: Systematic and Unsystematic Risk and Betas***

This lecture will explore systematic and unsystematic risk as it relates to common stock. We will look at some recent examples of both. We will examine the use (and shortcoming) of betas to measure systematic risk.

***Week 5 Lecture Topic: The Capital Asset Pricing Model***

This lecture will examine the CAPM as a model for determining the theoretically appropriate required return on a financial asset. We will also explore the Sharpe Ratio as a risk adjusted performance measure.

***Week 6 Lecture Topic: The Financial Asset Selection Process: Fundamental Versus Technical Analysis***

This lecture will compare and contrast two approaches to financial asset selection. We will apply fundamental analysis (book value and the Gordon Growth Model) to the analysis of selected companies. Under technical analysis we will apply selected techniques (e.g., the Bollinger Band and candlestick charting) to the investment decision.

***Week 7 Lecture Topic: The Efficient Frontier***

The Markowitz and Sharpe Efficient Frontier (and Optimal Portfolio Line) will be discussed in this lecture.

***Week 8 Lecture Topic: Behavioral Finance***

The role of investor physiology and emotions will be explored in this lecture. We will examine the role of behavioral finance in explaining some major financial market bubbles.

***Week 9 Lecture Topic: The Foreign Exchange Market and Global Companies***

In this lecture, we will look at the structure of the foreign exchange market and, specifically, how global companies use this market. With the use of real time on-line sites we will examine and monitor the foreign exchange market (bid and ask prices; American and European terms quotes, and spot and forward quotes). We will also discuss how spot and forward market quotes are determined. For forward rate determination we will examine the Interest Rate Parity Model.

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

This lecture examines various frameworks for forecasting foreign exchange rates. We will consider both a short term (Using an Asset Choice Model) and a longer term (Using the Purchasing Power Parity) forecasting horizon. We will attempt to forecast the euro and other currencies on the basis of these forecasting models.

## **Week 11 Lecture Topic: Strategies for Managing Risk**

In this concluding lecture we will discuss risk management strategies for global investors and global companies. We will examine the use of the foreign exchange market (forward rates and options market) by global companies to managed exchange rate exposure. The lecture will also discuss the concept and performance of (international) diversification to reduce financial risk. The lecture will look at the use of credit default swaps to manage the risk of default on bonds.

### **Attendance Policy**

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 (1/2 in the summer program)
- 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 Office 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.

### **Grievance Policy**

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 Interim Director, Stephanie Schnicker (319-335-1041, [stephanie-schnicker@uiowa.edu](mailto:stephanie-schnicker@uiowa.edu)). The Director will review the details of the complaint and involve the Associate Dean of the Undergraduate Programs, as needed.

### **Academic Misconduct**

The Tippie College of Business at the University of Iowa follows an honor code regarding academic misconduct. That code can be found at <http://tippie.uiowa.edu/honorcode.cfm> and includes cheating, plagiarism, unauthorized collaboration, obtaining an unfair advantage, forgery, facilitating academic dishonesty, and misrepresentation. Be sure you are familiar with this code. Students who exhibit academic dishonesty will receive a zero (0) for the assignment or examination involved and may receive an "F" for the class. All incidents of cheating will be reported to the CIMBA staff, as well as to the Senior Associate Dean of the Tippie College of Business. The decision of the professor may be appealed to a Judicial Board. The Honor Code for the Tippie College of Business will determine the appropriate appeal process.

### **Accommodating Students with Disabilities/Academic Accommodations**

A student seeking academic accommodations such as a modification of seating, testing, timing, etc. should first register with Student Disability Services, then contact the CIMBA Italy Office ([cimba-italy@uiowa.edu](mailto:cimba-italy@uiowa.edu)) to make further arrangements. See <http://sds.studentlife.uiowa.edu> for more information.

### **Sexual Harassment**

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 Interim Director, Stephanie Schnicker, at 319-335-1041 or [stephanie-schnicker@uiowa.edu](mailto:stephanie-schnicker@uiowa.edu).

### **Phones and Laptops**

Please turn off all phones before entering class. Unless otherwise notified by the professor, please refrain from using a laptop computer during class. Communication devices of any type are prohibited during examinations.