

# MACQUARIE UNIVERSITY

## Division of Economic and Financial Studies



### ECON 867 INTERNATIONAL FINANCIAL MANAGEMENT Semester 1, 2006

Unit Outline

Unit webpage:

<http://www.econ.mq.edu.au/courses/econ867/index.htm>

**Teaching Staff:**

**Prof. Jocelyn Horne**

**George Milunovich** (*lecturer in charge*)

Students should read this outline carefully at the start of semester. If anything in this outline is unclear contact the lecturer in charge for further clarification.

## 1. Course Overview

The focus of ECON867 is to provide the student with a thorough introduction to the analytical tools required by a financial manager to operate in the international business environment. This includes developing a full understanding of the foreign exchange market and its operation; the relationships between exchange rates, interest rates, and price levels; the financial instruments that facilitate the conduct of international corporate activity, including currency risk management; and how international corporations make financing and investment decisions.

## 2. Teaching Program

The lecturing will be shared between Prof. Jocelyn Horne and George Milunovich.

Lecturer	Class Location	Class Time	Contact
Prof. Jocelyn Horne	E7B – T3	Thursday 9:00 - 12:00 (2 March – 13 April)	Office: E4A 430 Phone: 9850 7287 <a href="mailto:jhorne@efs.mq.edu.au">jhorne@efs.mq.edu.au</a>
George Milunovich ( <i>lecturer in charge</i> )	E7B – T3	Thursday 9:00 - 12:00 (13 April – 8 June)	Office: E4A 443 Phone: 9850 8543 <a href="mailto:gmilunov@efs.mq.edu.au">gmilunov@efs.mq.edu.au</a>

The class sessions will be conducted primarily as lectures, with practical examples and problems introduced where appropriate. The text for this class is:

- Moosa, Imad A., (2004) *International Finance: An Analytical Approach*, 2<sup>nd</sup> Edition, Irwin/McGraw-Hill, Sydney.

Set chapters for each topic's lecture are drawn from this text and identified in the lecture topic table below. We will cover roughly one topic a week. Students should read these chapters prior to the lecture, so that they are familiar with the material to be covered. This will greatly enhance your learning experience. Other reference texts addressing international financial management topics may be found in the library. Two such references are:

- Shapiro, Alan C., (2003) *Multinational Financial Management*, 7<sup>th</sup> edition, John Wiley & Sons, Inc., New York.
- Eun, Cheol S. and Bruce G. Resnick, (2004) *International Financial Management*, 3<sup>rd</sup> edition, McGraw-Hill/Irwin, New York.

### 3. Course Calendar

Topic/ week No.	The Week of:	Topic	Chapters
1	2 March	Introduction	1
2	9 March	Foreign Exchange Market, Balance of Payments, Effective Exchange rate	2 & 3
3	16 March	International Monetary System and the Eurocurrency Market	5 & 8
4	23 March	Exchange Rate Determination	4
5	30 March	Purchasing Power Parity	9
6	6 April	Interest Parity (covered & uncovered) & Market Efficiency	10 & 11
7	13 April	<b>Mid-semester test;</b> Exchange Rate Forecasting	12
<b>Mid-semester Break</b>			
8	4 May	Currency Futures and Swaps	6
9	11 May	Currency Options	7
10	18 May	Foreign Exchange Risk and FX Risk Management	13
11	25 May	FX Risk Management	14
12	1 June	International Short-term Financing and Investment	15
13	8 June	International Long-term Financing and Investment	16 & 17

### 4. Important Dates for the Semester

Mid-semester test: **13 April 2006** (to be held in our usual classroom).

Mid-semester break: **14 April 2006 - 30 April 2006.**

Essay is due: **8 June 2006** (submit to boxes provided in ERIC)

Final exam: to be announced

### 5. Course Assessment

Assessment will be based on a semester assignment, a mid-semester test and an examination, with the following weights:

Essay assignment	15%
Mid-semester test	20%
Examination	65%

**The final exam MUST be passed for you to gain a passing mark in this unit.**

- **MID-SEMESTER TEST**

The mid-semester test will be a multiple choice quiz of one hour duration. It will cover everything taught up to and **including** topic 6 “Interest Parity & Market Efficiency”.

- **ESSAY**

The semester assignment is a 2000 word essay. The essay assignment is to be submitted by **4:00pm** on **June 8, 2006** to the ECON867 boxes in ERIC (E4B).

The specific essay topic will be provided in a separate handout, on the WebCT unit homepage.

**NO LATE SUBMISSIONS WILL BE ACCEPTED!**

The essay must be submitted using the official cover sheet, with the plagiarism declaration (available on WebCT) **signed**. It is your responsibility to keep a dated, witnessed copy of your assignment in the case of any mishandling.

- **FINAL EXAM**

It will consist of both multiple choice and long-answer questions and will be set over a two-hour duration.

In addition to the assignment, mid-semester test, and the exam there will be weekly problems assigned, which you are recommended to solve. You will not be required to submit these solutions and they will not be marked. Nevertheless, you should take the time to work on the problem sets, since they will tend to be similar in nature to the problems you see on the test and exam. Solutions will be provided for the assigned selected questions.

An additional resource is the McGraw-Hill webpage set up to support the Moosa textbook. This site may be accessed at [www.mhhe.com/au/moosa2e](http://www.mhhe.com/au/moosa2e). The textbooks contain a card with a registration code that gives you access to the materials on this site. One useful resource on this site is a set of interactive problems, with answers. This facility is labelled *Revision with MaxMark*. These problems will provide additional practice and insights into the material in this unit.

## **6. Learning Outcomes**

The globalization of financial markets offers opportunities but it also introduces new risks. As a response, novel investment techniques and market as well as credit risk management models have been introduced or are in the development stage. This unit, helps you manage, and keep abreast of, changes which will accompany you in your future professional career.

**Generic Skills:** Dealing with advanced material in our subject area requires a range of generic skills. This unit aims at developing such skills. The lectures and in particular the assignment are tailored to enhance critical analysis, problem-solving and creative thinking, comprehension, computing and writing skills. Class discussions promote verbal expression while contributions to the *Bulletin Board* improve your writing skills, which through email serve as an increasingly important communication medium. However, you will only acquire these skills by attending classes, immersing yourself into solving the assignment questions and participating in verbal and written class debates.

## 7. Plagiarism

The University defines plagiarism in its rules: “Plagiarism involves using the work of another person and presenting it as one’s own.” Plagiarism is a serious breach of the University’s rules and carries significant penalties. You must read the University’s practices and procedures on plagiarism. These may be found in the *Handbook of Undergraduate Studies* or on the web at : <http://www.student.mq.edu.au/plagiarism/>

The policies and procedures explain what plagiarism is, how to avoid it, the steps that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

## 8. University Policy on Grading

The Academic Senate has a set of guidelines on the distribution of grades across a range from fail to high distinction. Your final result will include one of these grades plus a standardized numerical grade (SNG).

On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, and so that students with similar performances compared with past students should achieve similar results.

It is important that you realize that the policy does not require that a minimum number of students be failed in any unit. In fact, it does something like the opposite, requiring examiners to explain their actions if more than 20% of the students fail a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another student will also receive a higher final scaled mark.

For an example of the policy see <http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc> or <http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>

## **9. Student Support Services**

Macquarie University provides a range of Academic Student Support Services. Details of these can be accessed at <http://www.student.mq.edu.au>.