



DIVISION OF ECONOMIC AND FINANCIAL STUDIES

DEPARTMENT OF ECONOMICS

COURSE OUTLINE

**ECON828 INTERNATIONAL INVESTMENT & RISK
SECOND SEMESTER 2007**

Hugh Dougherty
Lecturer in Charge

ECON828 INTERNATIONAL INVESTMENT & RISK

1. COURSE OBJECTIVES

This is an advanced-level course with a clear bias toward the analysis of global portfolio investment flows. International money, bond, equity and foreign exchange markets are analysed from the perspective of a risk-focused portfolio manager. A strong emphasis is placed upon developing a rigorous analytical skill-base which can then be applied to real-world issues. Topics include:

Orientation and overview of Portfolio Construction, Risk & Return

Single-factor models (CAPM)

Multi-factor models (APT)

Global vs. Domestic Portfolio Management

Asset Allocation , Country Emphasis, Sector Preference & Stock Selection

Hedging of International Equity and Bond Portfolios (Currency Forwards and Futures)

Hedging of International Equity and Bond Portfolios (Stock Index Futures and Options)

Bonds : Markets & Valuations

Bonds : Focus on Credit Risk & Default

Equities: Markets & Valuations

Equities : Focus on Valuation Case Study

Equities : Focus Capital Budgeting & Cost of Capital

2. ASSESSMENT

Essay	-	3000 words (see separate handout)	30
Final Exam	-	Multiple choice + essays (see separate handout)	70
Total			100

3. ENQUIRIES & COURSE TIMETABLE

Lecturer-in-charge:

Hugh Dougherty

Lecture Times:

6-9 pm, Tuesdays (room to be advised)

Unit Homepage:

In order to ensure that every student is kept fully informed and that any unnecessary duplication is avoided, all communications for this course will take place via the unit homepage. This can be accessed by logging onto <http://online.mq.edu.au> with your personal username and password, and then selecting the link commencing “ECON828...”

Once you have made it this far, click on the “Discussions” icon and then select the topic titled “Questions & Answers (Q&A)”. At this point, click on the message titled “Introduction” to find the text you are reading now.

To ask a question, select the reply button to this message and include the following (1) your name (2) your student ID number (3) your contact phone number and (4) a brief summary of your issue. Please remember that your question and my subsequent answer will be viewed by every student in the course.

University Rules:

Students are reminded of University rules governing requests for special consideration when illness, misadventure or other cause prevents attendance at classes, affects the submission of work or impairs performance in examinations.

4. RECOMMENDED READINGS

Text:

This unit does not rely on a specific set textbook. Rather, several recommended books (see below) will be used in conjunction with journal articles and lecture notes.

Recommended:

Bodie, Z., Kane, A., and Marcus, A. (2002) *Investments* 5th (International) Edition, Mc-Graw-Hill, Boston.

Francis, J. and Ibbotson, R (2002) *Investments: A Global Perspective* 1st Edition, Pearson Education Inc. and Prentice Hall.

Elton, E., Gruber, M., *et al* (2003) *Modern Portfolio Theory and Investment Analysis* 6th Edition, John Wiley & Sons.

Solnik, B. and D Mcleavey (2004) *International Investments* 5th Edition, Pearson Addison Wesley.

Copeland, T., Koller, T., and Murrin, J (2000) *Valuation: Measuring and Managing the Value of Companies* 3rd Edition, John Wiley & Sons.

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Other Useful References:

Shapiro, A.C. 2002, *Multinational Financial Management*, 7th ed., Boston.

Madura, J. 2000, *International Financial Management*, 6th edition West Publishing, New York.

Eun, C. and B. Resnick, 2001, *International Financial Management*, McGraw-Hill, Boston.

Fabozzi, F., 2000, *Handbook of Fixed Income Securities*, Chicago.

Crabbe, L. and F. Fabozzi, 2002, *Corporate Bond Portfolio Management*, Wiley.

Fabozzi, F., 2000, *Bond Portfolio Management*, 2nd ed., New Hope, Pennsylvania

Jüttner, D.J. 1998, *International Finance and Global Investments*, 4th ed., Addison Wesley, Melbourne.

Baekert, G and C. Harvey, 2003, Emerging Markets Finance, *Journal of Empirical Finance*, 10, pp. 3 – 55.

*Students needing assistance with **mathematics** should first consult:*

James, D. E. and Throsby, C. D. (1973) *Introduction to Quantitative Methods in Economics*, Sydney: John Wiley.

Chiang, A. C. (1984) *Fundamental Methods of Mathematical Economics*, (3rd ed)
New York: McGraw-Hill.

Dowling, E.T. (1992) *Introduction to Mathematical Economics*, (2nd Ed)
New York: McGraw-Hill

5. READING GUIDE BY LECTURE TOPIC

A separate handout is available (titled ‘List of Useful References, July 2007’) but this may differ from the actual flow of the lectures; it is a guide to general *content* rather than specific lecture detail or *structure*. It is also intended only as an *initial* assistance; further references may be given as the course proceeds.

When looking for reference material in the Library, always check Special Reserve *first*. Sometimes the only available version of a given reference is a *different edition*. You will need therefore to browse the table of contents etc to find the appropriate section.

It is important that you read as much material as you can in order to pass this course; exclusive reliance upon the lecture notes is insufficient to achieve this objective.

Section Break (Next Page)

Lecture Outline for ECON828 International Investment & Risk (second semester 2007)

Day	Topic
July 31 st	Orientation and overview of Portfolio Construction, Risk & Return
August 7 th	Theoretical Refresher : Single-factor models (CAPM)
August 14 th	Theoretical Refresher : Multi-factor models (APT)
August 21 st	Theoretical Refresher : Global vs. Domestic Portfolio Management
August 28 th	Practical Techniques : Asset Allocation , Country Emphasis, Sector Preference & Stock Selection
September 4 th	Practical Techniques : Hedging of International Equity and Bond Portfolios (Currency Forwards and Futures)
September 11 th	Practical Techniques : Hedging of International Equity and Bond Portfolios (Stock Index Futures and Options)
MID SEMMESTER BREAK (17th – 28th September)	
October 2 nd	Bonds : Markets & Valuations
October 9 th	Bonds : Focus on Credit Risk & Default
October 16 th	Equities: Markets & Valuations
October 23 rd	Equities : Focus on Valuation Case Study
October 30 th	Equities : Focus Capital Budgeting & Cost of Capital
November 6 th	Revision & Essay Completion
EXAMINATION PERIOD (14th – 30th November)	

MACQUARIE UNIVERSITY
DIVISION OF ECONOMIC AND FINANCIAL STUDIES

ECON828 International Investment and Risk
List of Useful References, July 2007

General References

Bodie, Z., A. Kane, and A. Marcus, 2002, *Investments*, McGraw-Hill, Boston.

Solnik, B. and D. Mcleavvey 2004, *International Investments*, 5th ed., Addison Wesley, Reading Mass.

Shapiro, A.C. 2002, *Multinational Financial Management*, 7th ed., Boston.

Madura, J. 2000, *International Financial Management*, 6th edition West Publishing, New York.

Eun, C. and B. Resnick, 2001, *International Financial Management*, McGraw-Hill, Boston.

Fabozzi, F., 2000, *Handbook of Fixed Income Securities*, Chicago.

Crabbe, L. and F. Fabozzi, 2002, *Corporate Bond Portfolio Management*, Wiley.

Fabozzi, F., 2000, *Bond Portfolio Management*, 2nd ed., New Hope, Pennsylvania

Jüttner, D.J. 1998, *International Finance and Global Investments*, 4th ed., Addison Wesley, Melbourne.

Baekert, G and C. Harvey, 2003, Emerging Markets Finance, *Journal of Empirical Finance*, 10, pp. 3 – 55.

Overview of Portfolio Construction & Introduction to Risk & Return

Bodie, Z., A. Kane, and A. Marcus, 2002, *Investments*, McGraw-Hill, Boston. Chap. 6, pp. 154-182.

Capital Asset Pricing Models and Multifactor Models – A Refresher

Bodie, Z., Kane, A. and A. Marcus, *op. cit.*, chapters 6 to 10.

Banz, R., 1981, The Relationship between Return and Market Value of Common Stocks, *Journal of Financial Economics*, 9, pp. 3 – 18.

Black, F., 1993, Beta and Return, *Journal of Portfolio Management*, Fall, pp. 8 – 18.

Section Break (Continuous)
Cochran, J. H., 1999, New Facts in Finance, *Economic Perspectives*, FRBC, Q3, pp. 36 - 58.

International Portfolio Investment

Solnik, B., *op. cit.*

Jüttner, D. J. *o. cit.* 1998, Chapter 24.

Eun, C. and B. Resnick, *op.cit.*

Levine, S. N. (ed.), 1992, *Global Investing*, Harper Business, New York
Levi, M. D., *International Finance*, 3rd ed. McGraw-Hill, New York, 1996, chapter 18.

Lewis, K. K., 1999 Trying to Explain Home Bias in Equities and Consumption, *Journal of Economics Literature*, June pp. 571 - 608

Tkac, P., 2001, The Performance of Open-End International Mutual Funds, *Economic Review*, ResBKA. Third Quarter, pp. 1 – 17.

Sill, K., 2001, The Gains from International Risk-Sharing, *Business Review* Q3, pp. 23 - 32

Useful Web sites

www.adr.com

www.sbam.com/framasia.htm

Hedging of International Equity and Bond Portfolios Using Currency Forwards and Futures

Pitts, M., 1997, Hedging with Futures and Options, in: F. Fabozzi, *The Handbook of Fixed Income Securities*, 5th ed. Irwin, pp. 1221 – 51.

Daigler, R.T., 1994, *Financial Futures and Options Markets: Concepts and Strategies*, Harper, New York.

Hull, J., 2000, *Options, Futures, and Other Derivatives*, 4ed. Prentice Hall, Upper Saddle River.

Hedging of International Equity and Bond Portfolios Using Stock Index Futures and Options

Hull, J., 2000, Options, Futures, and Other Derivatives, 4ed. Prentice Hall, Upper Saddle River.

Jüttner, D.J. and K.M. Hawtrey, 1997, *Financial Markets Money and Risk*, Longman, Melbourne, chapters 28 and 29.

Global Bond Portfolio Management

Bodie, Z., Kane, A. and A. Marcus, *op. cit.*, chapters 16

Fabozzi, F.J., 2004, Bond Markets, Analysis, and Strategies, 5th ed. Pearson, Upper Saddle River.

Fabozzi, F., 2000, Handbook of Fixed Income Securities

Erb, C., C. Harvey and T. Viskanta, 2000, Understanding Emerging Market Bonds, *Emerging Markets Quarterly*, Spring, pp. 1 – 17.

Jüttner, D. J. *op. cit.* Chapter 24

Global Bonds, Markets and Bond Valuations

Bodie-Kane-Marcus, *op. cit.* Ch 14

Erb, C., C. Harvey and T. Viskanta, 2000, Understanding Emerging Markets Bonds, *Emerging Markets Quarterly*, Spring, pp. 1 – 17.

Fabozzi, F.J., 2004, Bond Markets, Analysis, and Strategies, 5th ed. Pearson, Upper Saddle River.

Fabozzi, F., 2000, *Bond Portfolio Management*, 2nd ed., New Hope, Pennsylvania

Jüttner-Hawtrey, 1997, *Financial Markets, Money and Risk*, Melbourne, Longman, Ch 12

Term Structure of Global Interest Rates

Bodie, Z., Kane, A. and A. Marcus, *op. cit.*, chapter 15.

King, R. and A. Kurmann, 2002, Expectations and the Terms Structure of Interest Rates, *Economic Quarterly*, FRBR, Fall, pp. 49 - 95

Dolan, C. ,199, Forecasting the Yield Curve Shape: Evidence in Global Markets, June, pp. 92 – 99.

Credit Risk Ratings of Bonds, their Evaluation and International Bond Defaults

Bodie, Z., Kane, A. and A. Marcus, *op. cit.*, chapter 14. 5.

Jüttner, D. J. and J. McCarthy, 1998, Modelling a Ratings Crisis, Macquarie University, *mimeo*, <http://www.econ.mq.edu.au/staff/djuttner/SOVEIG2.pdf>

Krueger, A., 2001, International Financial Architecture for 2002: A new approach to Sovereign Debt Restructuring, *IMF* www.imf.org/external/pubs/ft/exrp/sdrm/eng/sdrm.pdf

Bond Restructuring and Moral Hazard: Are Collective Action Clauses Costly? www.imf.org/external/pubs/ft/staffp/2002/00-00/pdf/becke.pdf

Moody's, 2003, Sovereign Bond Defaults, Ratings Transition, and Recoveries, (1985 – 2002), Special Comment, February. www.moodys.com

International Cost of Capital

Fama, E. and K. French, 2002, The Equity Premium, *Journal of Finance*, April, pp. 637 - 59

Jüttner, D.J. and K.M. Hawtrey, 1997, *Financial Markets Money and Risk*, Longman, Melbourne, chapters 16 to 17.

Shapiro, A.C., 1999, *op. cit.* chapter 18: The Cost of Capital for Foreign Direct Investment.

Eiteman, D., Stonehill, a. and M. Moffett, 1998, *op. cit.*, Chapter 11: The Global Cost of Capital, pp. 330 - 72.

Fama, E. and K French, 1999, The Corporate Cost of Capital and Return on Corporate Investment, *Journal of Finance*, Dec. pp. 1939 -67.

Mehra, R. and E. Prescott, 1985, The Equity Premium: A Puzzle, *Journal of Monetary Economics*, March, pp. 145 - 61.

Siegel, J. 1999, The Shrinking Equity Risk Premium, *Journal of Portfolio Management*, Fall, pp. 10 - 17.

Jagannathan, R., E. McGrattan and A. Scherbina, 2000, The Declining U.S. Equity Premium, *Quarterly Review*, *FRBMin. Fall*, 3-19.

Godfrey, S. and R. Espinosa, 1996, A Practical Approach to Calculating Costs of equity for Investments in Emerging Markets, *Journal of Applied Corporate Finance*, Fall, pp. 80 -89.

Schramm, R. and H. Wang, 1999, Measuring the Cost of Capital in an International CAPM Framework, *Journal of Applied Corporate Finance*, Fall, pp. 63-72.

Stulz, R., 1999, Globalization Corporate Finance, and the Cost of Capital, *Journal of Corporate Finance*, Fall.

O'Brien, T. 1999, The Global CAPM and the Firm's Cost of Capital in Different Currencies, *Journal of Applied Corporate Finance*, Fall, pp. 73-79.

OECD 1999, Ad Hoc Task Force on Corporate Governance, *OECD Principles of Corporate Governance*, Paris.

International Capital Budgeting and Real Options

Eiteman, D., Stonehill, A. and M. Moffett, *op. cit.*, ch. 11.

Shapiro, A. C., *op.cit.* ch. 18.

Lumby, S. 1997, *Investment Appraisal and Financing Decisions*, 5th ed. Chapman Hall, London.

Kester, W. C. and T. A. Luehrman, 1995, Capital Budgeting, Investment, and Cross-Border Valuations, in: *Case Problems in International Finance*, MCGraw-Hill, New York, pp. 47-73.

Sercu, P. and R. Uppal, *op. cit.*

Luehrmann, T. A., 1998, Using APV: A Better Tool for Valuing Operations, *Harvard Business Review*, May – June, pp. 145 – 154.

Luehrmann, T. A., 1998, What's It Worth? A General Manager's Guide to Valuations, *Harvard Business Review*, May – June, pp. 132 – 142.

Luehrman, T., 1998, Investment Opportunities as Real Options: Getting Started on the Numbers, *Harvard Business Review*, July-August, pp. 51 – 67.

Trigeorgis, L., 1996, *Real Options: Managerial Flexibility and Strategies in Resource Allocation*, MIT Press, Cambridge.

International Taxation and Investments

Devereux, M. 2003, The Impact of Corporate Taxation on the Location of Capital: A Review, forthcoming in D. J. Jüttner, ed. *International Taxation and Foreign Investment*,

Jüttner, D.J., *op. cit.* Ch 23

Hufbauer, G.C., 1992, *US Taxation of International Income*, Institute of International Economics, Washington, D.C.

OECD, *Taxation and International Capital Flows*, 1990, OECD, Paris.

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Review of Business Taxation, 1999, *A Tax System Redesigned*, Ralph Report, July.

Wood, R. 2001, Financial Capital and Taxation Policy: The Way Forward, *Economic Roundup*, Winter pp. 69 - 90.

Jüttner, D.J. and N. Carlsen, 1998, Taxing International Capital Income: Interest Withholding Tax, *Journal of Australian Taxation*, Nov./Dec., pp. 219 -31.

Foreign Direct Investment

Cantwell, J. 1999, *Foreign Direct Investment and Technological Change*, E. Elgar, Cheltenham.

Froot, K. and J. Stein, 1991, Exchange Rates and Foreign Direct Investment: an Imperfect Capital Markets Approach, *Quarterly Journal of Economics*, 106, pp. 1191 - 1217

Mcvicar, D., 2002, Spillovers and **Foreign Direct Investment** in UK Manufacturing, *Applied Economic Letters*, April, pp. 297 - 300

Moran, T. 1998, *Foreign Direct Investment and Development*, Institute for International Economics, Washington, D. C.

Sun, Q., W. Tong, and Q. Yu, 2002, Determinants of Foreign Direct Investment across China, *Journal of International Money and Finance*, February, pp. 79 - 113

Phelps, N. and J. Alden, 1999, *Foreign Direct Investment and the Global Economy*, London.

Swenson, D., 1993, Foreign Mergers and Acquisitions in the United States, in: K.A. Froot, *foreign Direct Investment*, UCP, Chicago, pp. 255 - 285.

United Nations, 2000, *World Investment Report 2000*, United Nations, New York.

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