

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

**ECON828 INTERNATIONAL INVESTMENT & RISK  
(DEPARTMENT OF ECONOMICS)  
SECOND SEMESTER 2009**

**COURSE OUTLINE**

**Hugh Dougherty**  
Lecturer in Charge

# ECON828 INTERNATIONAL INVESTMENT & RISK

## 1. COURSE OBJECTIVES

This is an advanced-level course which examines international money, bond, equity and foreign exchange markets from the perspective of a risk-focused portfolio manager.

An emphasis is placed upon developing a balance between quantitative skill and qualitative understanding of real-world issues. Topics include:

Orientation and overview of Portfolio Construction, Risk & Return

Single-factor models (CAPM)

Multi-factor models (APT)

The Case for International Diversification

Bond Markets; Term Structure of Interest Rates

Credit Risk; Bond Portfolio Management

Monte Carlo Simulation

Foreign Exchange

Introduction to Derivatives

Theoretical Foundations (Future & Options)

Real Options; Cost of Capital

Behavioral Finance

## 2. ASSESSMENT

Essay	-	3000 words (see separate handout)	% 30
Final Exam	-	Multiple choice + essays (see separate handout)	70
Total			<hr/> 100

### 3. ENQUIRIES & COURSE TIMETABLE

*Lecturer-in-charge:*

Hugh Dougherty

*Lecture Times:*

6-9 pm, Mondays (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://www.learn.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* 5<sup>th</sup> (International) Edition, Mc-Graw-Hill, Boston.

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

Crouhy, M., Galai, D. and Mark, R. (2005), *The Essentials of Risk Management*, McGraw-Hill.

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

Francis, J. and Ibbotson, R (2002) *Investments: A Global Perspective*

1<sup>st</sup> Edition, Pearson Education Inc. and Prentice Hall.

Hull, John (2007) *Risk Management and Financial Institutions*, 1<sup>st</sup> Edition, Pearson.

Hull, J. (2007) *Options, Futures and other Derivatives*, 6<sup>th</sup> Edition, Prentice Hall

Jorion, P. (2006), *Value-at-Risk*, 3<sup>rd</sup> Edition, McGraw-Hill

Saunders, A. and J Boudoukh (2004) *Understanding Market, Credit and Operational Risk: The Value-at-Risk Approach*, Blackwell Publishing.

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

Trueck, S. and Rachev, S., (2009) *Rating Based Modeling of Credit Risk*, Elsevier Academic Press

*Other Useful References:*

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

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

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

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

Fabozzi, F., 2000, *Bond Portfolio Management*, 2<sup>nd</sup> ed., New Hope, Pennsylvania

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

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

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

Students needing assistance with mathematics should first consult:

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

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

Gujarati, D. (2003) *Basic Econometrics*, (4<sup>th</sup> Ed), McGraw-Hill

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

## 5. READING GUIDE BY LECTURE TOPIC

A separate handout is available (titled ‘List of Useful References, July 2009’) 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.