Faculty of Business and Economics

**ECON360**

**INTERNATIONAL FINANCE**

Semester 2 2009

UNIT OUTLINE

**Introduction**

*International finance* is about capital-market transactions involving more than one country or currency.

This field has long attracted leading scholars, including Professor Robert Hodrick, who is the senior author of the text for this course (see below.) Three decades ago he revolutionised the traditional advice offered by scholars on how to forecast exchange rates over short time horizons. This year Hodrick has entered the highly competitive market for textbooks on international finance, in collaboration with Professor Geert Bekaert, one of his most successful former PhD students.

The topics covered in this course include exchange rates (*ie*, prices of foreign currencies), the balance of payments, business financing and investment decisions involving more than one country, the capital asset pricing model in an international setting, risk management in an international setting, and foreign currency derivatives.

*ECON360 International Finance* provides students with analytical tools that enable them to research or engage with confidence in international business decisions. For example, risk management in international business involves currency risks—unexpected shifts in currency values that create difficulties for your business operations or balance sheet. ECON360 provides tools that enable you to recognise and, if necessary, hedge such risks. It will extend both your numeric and writing skills.

**Prescribed text**

Geert Bekaert and Robert Hodrick, 2009, *International Financial Management*, Pearson International. Its associated website is http://www.prenhall.com/bekaert

**Lecturer**

Lecturer & course coordinator: **Geoff Kingston**

Office: E4A 411. Email: gkingston@efs.mq.edu.au

*Note*: except in emergencies, emails will only be answered during consultation times. Consultation times: Monday 5pm-6pm, Wednesday 2pm-5pm.

**Tutor (**Weeks 2-13)

Jingyuan Meng E4A 453 Ph: 9850 8505

Office:E4A.453 Email: jingyuan.meng@efs.mq.edu.au

Consultation times: Friday 3pm-5pm.

**Lecture/Tutorial Times and Venues**

| Monday | 13-16 (Day Lecture/Tutorial) | X5B Tl |
|---|---|---|
| Wednesday | 18 - 21 (Evening Lecture / Tutorial) | C5C T1 |

**Assessment**

| | |
|---|---|
| *Mid-session examination*, in Week 7, & in place of lectures that week* | 20% |
| *Review essay*, due by Wednesday 14 October** | 20% |
| *Final examination**** | 60% |
| ***Total*** | 100% |

\**Mid-session examination***: each week students will work through a set of tutorial questions on the topics discussed during the lecture of the previous week (see below for topics week by week). Your mid-session examination is 50 minutes plus 10 minutes reading time. It will be based primarily on questions along the lines of the numeric/short answer tutorial questions on lectures presented from weeks 1 to 6 (see below).

\**\**Review essay*: write a 1600 word summary and evaluation of any single one of the 10 classic articles on international finance (listed below.) By "review essay" I mean a summary in your own words of the article you have chosen to review, together with an appraisal of it. Choose your own preferred proportions of summary and appraisal. You will receive a slightly higher mark if, other things equal, the article you choose to review is comparatively difficult, or your bibliography is extensive. Submit in BESS. Keep a copy of your essay.

\**\**\**Final examination*: to be held at a time and place to be announced in due course by the administration. It will be based on lectures and tutorials from weeks 1 to 13 (see below), with an emphasis on material presented after the mid-session examination.

# LECTURE PROGRAM

**Week 1** (Monday 3 August/Wednesday 5 August)

GLOBALIZATION/THE FOREIGN EXCHANGE MARKET                Chapters 1 - 2 (pp1-66)

*NB:* The week 1 lecture will be short. There is no tutorial in Week 1.

**Week 2** (Monday 10 August/Wednesday 12 August)

FORWARD MARKETS & TRANSACTION RISK/THE BALANCE OF PAYMENTS        Chapters 3-4 (pp67-135)

**Week 3** (Monday 17 August/Wednesday 19 August)

EXCHANGE RATE SYSTEMS/INTEREST RATE PARITY                Chapters 5-6 (pp136 - 212)

**Week 4** (Monday 24 August/Wednesday 26 August)

SPECULATION & RISK/PURCHASING POWER PARITY & REAL EXCHANGE RATES  Chapters 7-8 (pp213 – 295)

**Week 5** (Monday 31 August/Wednesday 2 September)

EXCHANGE RISK/EXCHANGE RATE DETERMINATION & FORECASTING        Chapters 9-10 (pp296 – 377)

**Week 6** (Monday 7 September/Wednesday 9 September)

INTERNATIONAL DEBT & EQUITY FINANCING                Chapters 11-12 (pp378 – 456)

**Week 7** (Monday 14 September/Wednesday 16 September)

MIDSESSION EXAMINATION, in place of lectures and tutorials. Mid-session examination value: 20%.

**Monday 21 September - Friday 2 October**

MIDSESSION BREAK

**Week 8** (Monday 5 October - Wednesday 7 October)

NO LECTURES OR TUTORIALS THIS WEEK

*NB*: Monday 5 October is a public holiday


**Week 9** (Monday 12 October/Wednesday 14 October)

INTERNATIONAL CAPITAL MARKET EQUILIBRIUM/POLITICAL & COUNTRY RISK    Chapters 13-14 (pp457 – 554)

*NB*: your review essay is due on 14 October. Essay value: 20%.


**Week 10** (Monday 19 October/Wednesday 21 October)

INTERNATIONAL CAPITAL BUDGETING/RISK MANAGEMENT                         Chapters 15-17 (pp555 – 649)


**Week 11** (Monday 26 October – Wednesday 28 October)

FINANCING TRADE/WORKING CAPITAL/FUTURES & OPTIONS                         Chapters 18- 20 (pp650 –750)


**Week 12** (Monday 2 November 2 – Wednesday 4 November)

INTEREST RATE & FOREIGN CURRENCY SWAPS                                         Chapter 21 (pp751-781)

**Week 13** (Monday 9 November 9 – Wednesday 11 November)

REVIEW.

*NB*: tutorials in Week 13 will be brief.


**10 classic articles on international finance**

Becker, C & Fabbro, D (2006), "Limiting foreign exchange exposure through hedging: The Australian experience", Reserve Bank Discussion Paper.

Belkar, R, Cockerell, L, & Kent, C (2007) "Current account deficits: The Australian debate", Reserve Bank Discussion Paper.

Cooper, R. (1983), "The Gold Standard: Historical facts and future prospects", *Brookings Papers on Economic Activity,* pp1-56.

Goldman Sachs Economics Group (2007), *BRICS and beyond*.

Hanke, S, and M. Sekerke (2003), "Monetary options for postwar Iraq", Cato Institute.

Jorion, P (1994), "Mean/variance analysis of currency overlays", *Financial Analysts Journal*, May-June issue, pp48-56.

Jorion, P and W. Goetzmann (1999), "Global stock markets in the twentieth century", *Journal of Finance*, June issue, pp953-980.

Mussa, M. (1979), "Empirical regularities in the behaviour of exchange rates and theories of the foreign exchange market", in K. Brunner and A. Meltzer (eds), *Carnegie-Rochester Conference Series on Public Policy*, Vol.11, 9-58.

Perold, A. and E. Schulman (1988), "The free lunch in currency hedging: Implications for investment policies and performance standards", *Financial Analysts Journal* (May/June issue).

Rose, A. (2007), "A stable international monetary system emerges: Inflation targeting is Bretton Woods, reversed," *Journal of International Money and Finance*, Elsevier, vol. 26(5), pp 663-681, September.

**Unit web page**

Students will be able to access the unit web page by using their normal university Student ID Number and Password on http://learn.mq.edu.au. Further help may also be provided by the Learning and teaching Centre: http://www.mq.edu.au/learningandteachingcentre.

**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 can 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 procedures 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.

**University policy on grading**

Academic Senate has a set of guidelines on the distribution of grades across the 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, so that units with the same past performances of their students should achieve similar results. It is important that you realize that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in 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 will also receive a higher final scaled mark. For an explanation of the policy see:http://senate.mq.edu.au/rules/Guidelines2003.doc, http://senate.mq.edu.au/rules/detailedguidelines.doc