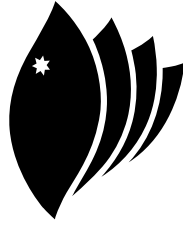


MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ECON360
International Finance

Semester 2 2010

Department of Economics

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Year and Semester: 2010, Semester 2

Unit convenor: Professor Geoffrey Kingston

Prerequisites: ECON200 or ECON201 or BBA204 or BBA214 or ECON214 or ECON215

Corequisites: nil

Credit points: 3

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

ABOUT THIS UNIT

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

The topics covered in this course include exchange rates, 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 is part of the toolkits of economists, accountants, managers, actuaries and financial analysts. Business and government do not stop at the border.

TEACHING STAFF

Convenor & lecturer: Geoffrey Kingston

Office: E4A 411.

Consultation times: Monday 5pm-6pm, Wednesday 2pm-5pm.

Email: geoff.kingston@mq.edu.au

Deputy Convenor & tutor: Ben Wang

Office: E4A 447B

Consultation times: Wed 3-6pm

Email: ben.wang@mq.edu.au

Other staff: tba.

You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours. Staff will not conduct any consultations by email. You may, however, phone staff during their consultation hours.

In order to gain access to staff located at levels 1, 2 and 3 of building E4A during their consultation hours please ring the staff member from the phones available in the lobby (phone numbers of relevant staff members will be provided on Blackboard and are available next to the phones).

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

CLASSES

This course has 3 hours face-to-face teaching per week consisting of a 1 x 2 hour lecture and a 1 x 1 hour tutorial.

Lecture/Tutorial Times and Venues

Monday	13-16 (Day Lecture/Tutorial)	X5B T1
--------	------------------------------	--------

(At the time of writing we are seeking to organise an alternative, second tutorial for the 4pm-5pm slot.)

Wednesday	18 - 21 (Evening Lecture / Tutorial)	C5C T1
-----------	--------------------------------------	--------

The timetable for classes can be found on the University web site at: <http://www.timetables.mq.edu.au/>

Students can attend either the Monday or Wednesday class as they see fit.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

Prescribed text

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

This required text can be purchased from the Macquarie University Co-op Bookshop. It is also available in the Macquarie Library.

10 classic articles on international finance

(All available on Blackboard)

1. Battelino R (2010), "Aspects of Australia's Finances", Reserve Bank of Australia.
An unusually persuasive specimen of our official family's insistence that Australians are not overborrowed. Level of difficulty: low to medium.
2. Becker, C & Fabbro, D (2006), "Limiting foreign exchange exposure through hedging: The Australian experience", Reserve Bank Discussion Paper.
More intelligent and sensible research by central bankers. Level of difficulty: low to medium.
3. Cairns, J, Ho, C & McCauley, R (2007), "Exchange rates & global volatility: implications for Asia-Pacific currencies", *BIS Quarterly Review*, March, pp41–52.
Ditto. Documents the fact that currencies like the Australian dollar tend to weaken during times of global financial turmoil. Level of difficulty: medium.
4. Chen, Y & Tsang, K, (2009), "What Does the Yield Curve Tell Us About Exchange Rate Predictability?"
A scholarly reading of the tea leaves in the term structure of interest rates for the purpose of obtaining exchange-rate forecasts. Level of difficulty: medium to high.
5. Goetzman, W, & Jorion, (1999), "Global stock markets in the twentieth century", *Journal of Finance*, June issue, pp953-980.
Salutary reminder of the historical pitfalls of investing in emerging markets. Level of difficulty: medium.
6. Goldman Sachs Economics Group (2009), "The Long-Term Outlook for the BRICs and N-11 Post Crisis".
Bullish update of this company's famous case for investing more in emerging markets. Level of difficulty: low to medium.
7. Gyntelberg, J & Remolona, E (2007) "Risk in carry trades: a look at target currencies in Asia and the Pacific", *BIS Quarterly Review*, December, pp73-82.
Uses the concepts of value at risk and expected shortfall to measure the pitfalls of the "carry trade"—borrowing in a low-interest currency such as the US dollar, then using the proceeds to lend in a high interest currency such as the Australian dollar. Level of difficulty: medium to high.
8. Jorion, P (1994), "Mean/variance analysis of currency overlays", *Financial Analysts Journal*, May-June, pp48-56.

An elegant academic critique of “overlays”--a popular approach by practitioners to hedging currency risk. Level of difficulty: medium to high.

9. Obstfeld, M & Rogoff K, (2009), “Global Imbalances and the Financial Crisis: Products of Common Causes”, November.

A ‘big-think’ piece about the international origins of the global financial crisis. Level of difficulty: medium.

10. 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.

A persuasive case for hedging out most of the currency risk from your offshore investments--maybe not so persuasive for Australian investors once you’ve read Cairns *et al.* Level of difficulty: medium.

UNIT WEB PAGE

Course material is available on the learning management system (BlackBoard)

There is no web page for this unit.

LEARNING OUTCOMES (THIS AND THE FOLLOWING SECTION MAY BE REPLACED BY A COMBINED SECTION)

ECON360 International Finance provides students with analytical tools that enable them to research or engage with confidence in the international decisions of businesses and governments. For example, risk management in international business involves exchange 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 your numeric and writing skills.

LECTURE PROGRAM

Week 1 (Monday 2 August/Wednesday 4 August)

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

NB: Today's lecture will be short. There is no tutorial this week.

Week 2 (Monday 9 August/Wednesday 11 August)

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

Week 3 (Monday 16 August/Wednesday 18 August)

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

Week 4 (Monday 23 August/Wednesday 25 August)

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

Week 5 (Monday 30 August/Wednesday 1 September)

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

Week 6 (Monday 6 September/Wednesday 8 September)

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

Week 7 (Monday 13 September/Wednesday 15 September)

MIDSESSION EXAMINATION, in place of lectures and tutorials. Midsession
examination value: 20%.

Monday 20 September - Friday 1 October

MIDSESSION BREAK

Week 8 (Monday 4 October - Wednesday 6 October)

NO LECTURES OR TUTORIALS THIS WEEK

NB: Monday 5 October is a public holiday

Week 9 (Monday 11 October/Wednesday 13 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 18 October/Wednesday 20 October)

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

Week 11 (Monday 25 October – Wednesday 27 October)

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

Week 12 (Monday 1 November – Wednesday 3 November)

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

Week 13 (Monday 8 November – Wednesday 10 November)

REVIEW.

NB: tutorials in Week 13 will be brief.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

	Assessment Task 1	Assessment Task 2	Assessment Task 3
Title/Name	Midsession examination	Review essay	Final examination
Description	1 hour (including 10 minutes reading time)	A 1600 word summary and evaluation of any single one of the 10 classic articles on international finance, listed above.	2 hours (plus 10 minutes reading time)
Due date	Week 7 (Monday 13 September/Wednesday 15 September) instead of class.	Wednesday 13 October	
% Weighting	20	20	60
Grading method - marking criteria/ standards - expectations in relation to presentation - referencing requirements or refer to attached marking rubric	<p>Each week students will work through a set of tutorial questions on the topics discussed during the lecture of the previous week --- see above for a list of topics week by week.</p> <p>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.</p>	<p>In your review essay, choose your own preferred proportions of summary and appraisal.</p> <p>You will receive a <u>slightly</u> higher mark if, other things equal, the article you choose to review is comparatively difficult.</p> <p>You do not need an extensive bibliography.</p>	<p>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, with an emphasis on material presented after the mid-session examination.</p>
Submission method		<p>Submit in BESS</p> <p><u>Keep a copy of your essay.</u></p>	

	Assessment Task 1	Assessment Task 2	Assessment Task 3
Learning outcomes assessed:			
1	Knowledge of material presented in lectures, tutorials & textbook.	By “review essay” I mean a summary <u>in your own words</u> of the article you have chosen to review, together with an intelligent appraisal of it.	Knowledge of material presented in lectures, tutorials & textbook.
2	Problem solving.	Clear & concise English expression.	Clear English expression
3	Clear & concise English expression.	Accurate paraphrase	Problem solving.

A final examination is included as an assessment task for this unit to provide assurance that:

- i) the product belongs to the student and
- ii) the student has attained the knowledge and skills tested in the exam.

A 2 hour final examination for this unit will be held during the University Examination period.

The University Examination period in Second Half Year 2010 is from 15 November to 3 December.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. The University’s policy on special consideration process is available at

http://www.mq.edu.au/policy/docs/special_consideration/policy.html

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Faculties may wish to signal when the Faculties' Supplementary Exams are normally scheduled.)

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at: <http://www.mq.edu.au/policy/docs/examination/policy.htm>

ACADEMIC HONESTY

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

GRADES

Please refer to relevant Bachelor Degree rule in the Handbook of Undergraduate Studies.

GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

http://www.businessandconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals.

SPECIAL CONSIDERATION

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be

circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at: http://www.mq.edu.au/policy/docs/special_consideration/procedure.html

STUDENT SUPPORT SERVICES

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

[Individual Unit Convenors may wish to add Unit/ Faculty specific support eg BESS, Room, PAL, E4B Consultation Room.]

IT CONDITIONS OF USE

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.