UNIT OUTLINE
2003  Second Semester

ECON 828
INTERNATIONAL INVESTMENT AND RISK

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Lecturer-in-charge
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ECON828
International Investment and Risk

Course Overview

The focus of ECON828 is to provide the student with a thorough introduction to the theory, analytical tools, and methodologies applicable to investment in a global/international context. This includes developing a full understanding of risk and risk aversion, international bonds and equities, the implications of foreign exchange risk on such investments, how one might hedge the risks faced in the international investment environment, the benefits of international diversification, how to estimate the international cost of capital, how to evaluate foreign direct investment opportunities, and the influence of taxes on international investment.

The course will begin with an introduction to risk and risk aversion. The measurement of risk is a key element of investment decision making. The fact that most investors are assumed to be risk averse means that we need to understand how we may participate in risky investments in a manner that tends to reduce the risk we face for a given return to be gained. Portfolio diversification is the means by which we reduce the risk faced for a given rate of return. We will develop the fundamentals of portfolio formation and then extend these into the international market environment.

We will introduce a range of asset classes for investment in the international marketplace and how to value them. We will then examine how we may hedge our portfolios in the international market using currency swaps, forwards, and futures, as well as employing index futures and options.

The estimation of the cost of capital in the international environment and capital budgeting techniques will be developed to facilitate an understanding of the analysis conducted to evaluate foreign direct investment opportunities. Finally, we will examine the implications of taxation in the international investment environment.

Teaching Program

<table>
<thead>
<tr>
<th>Lecturer</th>
<th>Class Location</th>
<th>Class Time</th>
<th>Contact</th>
<th>Consultation Times</th>
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<tbody>
<tr>
<td>Dr. Ronald D. Ripple</td>
<td>E7B 100</td>
<td>Thursday: 6pm-9pm</td>
<td>Office: C5C 364 Phone: 9850 7063 Email: <a href="mailto:rripple@efs.mq.edu.au">rripple@efs.mq.edu.au</a></td>
<td>Tuesday: 10am-noon Wednesday: 2pm-4pm</td>
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The class sessions will be conducted primarily as lectures, with practical examples and problems introduced occasionally where appropriate.
There is no one text for this class, but we will draw fairly heavily from:


A copy of *Investments* is on reserve in the Macquarie University library.

A list of topics is presented below. Also attached below is a list of readings by topic that are recommended reading prior to attending the associated lecture. We will cover roughly a topic a week.

Some of these readings are text chapters and others are journal articles. The journal articles will be made available on the Web CT page for this class, and/or in ERIC.

Other reference texts addressing the topics covered may be found in the library, both on reserve and in the stacks. A few such references are:


**Course Topic Calendar**

<table>
<thead>
<tr>
<th>Topic No.</th>
<th>Topic</th>
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<tbody>
<tr>
<td>1</td>
<td>Introduction/Risk and Risk Aversion</td>
</tr>
<tr>
<td>2</td>
<td>Capital Allocation and Optimal Portfolios</td>
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<tr>
<td>3</td>
<td>International CAPM and Multifactor Models</td>
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<tr>
<td>4</td>
<td>Global Bonds, Markets, and Bond Valuation</td>
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<tr>
<td>5</td>
<td>Term Structure of Global Interest Rates</td>
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<tr>
<td>6</td>
<td>International Portfolio Investment</td>
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<tr>
<td>7</td>
<td>Hedging Using Currency Swaps, Forward, and Futures</td>
</tr>
<tr>
<td>8</td>
<td>Hedging Using Stock Index Futures and Options</td>
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</tbody>
</table>
Important dates for the semester

There will be NO CLASS during Week 5, 28 August. I have to be out of the country for a conference. To make up for the lost class, we will extend the class time Weeks 2, 3, 4, 6, 7, and 8 by half an hour. Therefore, for those six weeks we will meet from 6pm-9:30pm.

Mid-semster break is over the period of 27 September – 12 October.

The examination will be held in Week 13, in our usual classroom, 6 November.

Course Assessment

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

| Assignment | 20% |
| Exam | 80% |

The Assignment is to be submitted by 6pm Friday 26 September. The assignment is to be submitted to the ECON828 box in ERIC (C5C 244). It must be submitted using the official cover sheet, with the plagiarism declaration signed. You should keep a dated, witnessed copy of your assignment in the case of any mishandling. This is YOUR responsibility.

The Examination will be held during Week 13. 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 and the exam there will occasionally be problems assigned, which you are required to solve and submit. You will be required to submit these solutions at the start of a class lecture period, as the solutions will be gone over at the end of the lecture. These problem solutions will not be marked, but they will be reviewed for effort. Moreover, students may be called upon at random to discuss the solutions, so coming prepared will be beneficial.

Assignment

The semester assignment is a 2500 word essay. The details of the essay topic are covered under separate cover.
**Readings**

**Topic 1**  
**Risk and Risk Aversion**

Bodie/Kane/Marcus, Chap. 6, pp. 154-182.


**Topic 2**  
**Capital Allocation and Optimal Portfolios**

Bodie/Kane/Marcus, Chaps. 7-8, pp. 183-256.


**Topic 3**  
**International CAPM and Multifactor Models**

Bodie/Kane/Marcus, Chaps. 9-10, pp. 258-319.

Solnik, Chap. 5, pp. 162-171.

Moosa, Chap. 19, pp. 558-560.


**Topic 4**  
**Global Bonds, Markets, and Bond Valuation**

Bodie/Kane/Marcus, Chaps. 14 & 16, pp. 414-451 & 482-529.


**Topic 5**  
**Term Structure of Global Interest Rates**

Bodie/Kane/Marcus, Chap. 15, pp. 452-481.

**Topic 6 International Portfolio Investment**

Solnik, Chap. 4, pp. 107-153.

Bodie/Kane/Marcus, Chap. 25, pp. 848-872.


**Topic 7 Hedging Using Currency Swaps, Forwards, and Futures**


**Topic 8 Hedging Using Stock Index Futures and Options**


Topic 9  International Cost of Capital


Shapiro, Chap. 14, pp. 474-509.


Topic 10  International Capital Budgeting and Real Options

Shapiro, Chap. 17, pp. 565-608.

Moosa, Chap. 20, pp. 576-584.


**Topic 11  Foreign Direct Investment**


**Topic 12  International Taxation and Investments**


**ECON828 SEMESTER ASSIGNMENT COVER SHEET**
(to be attached to the front of your semester assignment)

**FULL STUDENT NAME:** ______________________________

**STUDENT NO.:** ______________________________________

**ASSESSMENT:** GOOD FAIR POOR

<table>
<thead>
<tr>
<th>Component</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Presentation</td>
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<td>Layout</td>
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**Marks deducted:**

- Lateness
- Poor presentation
- No acknowledgments
- Length
- Poor grammar
- No data attached
- No estimates attached

**FINAL MARK (out of 100)** __________

**Marker’s comment:**

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PLAGIARISM DECLARATION

Plagiarism involves the use of the work of another person and presenting it as one’s own. Any of the following acts constitutes plagiarism unless the source of each quotation or piece of borrowed work is clearly acknowledged:

- copying out part(s) of any document or audiovisual material (including computer-based material);
- using or extracting another person’s concepts, experimental results, or conclusions;
- summarising another person’s work;
- in an assignment where there was collaborative preparatory work, submitting substantially the same final version of any material as another student

Encouraging or assisting another person to commit plagiarism is a form of improper collusion and may attract the same penalties.

STATEMENT TO BE SIGNED BY STUDENT:

1. I have read the description of plagiarism above.
2. In my assignment I have carefully acknowledged the source of any material which is not my own work.
3. I am aware that plagiarism can attract severe academic penalties.

__________________ ________________ ___________________________
(Name) (Student I.D.) (Signature)

THIS PAGE MUST BE COMPLETED AND ATTACHED TO THE ASSIGNMENT