DIVISION OF ECONOMIC AND FINANCIAL STUDIES

DEPARTMENT OF ECONOMICS

COURSE OUTLINE

ECON828 INTERNATIONAL INVESTMENT & RISK
SECOND SEMESTER 2007

Hugh Dougherty
Lecturer in Charge
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

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Weight (%)</th>
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<tbody>
<tr>
<td>Essay - 3000 words</td>
<td>30</td>
</tr>
<tr>
<td>Final Exam - Multi-choice + essays</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
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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:


Other Useful References:


*Students needing assistance with mathematics should first consult:*


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

**EXAMINATION PERIOD (14\textsuperscript{th} – 30\textsuperscript{th} November)**
ECON828 International Investment and Risk
List of Useful References, July 2007

General References


Overview of Portfolio Construction & Introduction to Risk & Return


Capital Asset Pricing Models and Multifactor Models – A Refresher

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


International Portfolio Investment

Solnik, B., op. cit.


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


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


Useful Web sites

www.adr.com
www.sbam.com/framasia.htm

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


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


Global Bond Portfolio Management

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

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


Jüttner, D. J. *op. cit.* Chapter 24

Global Bonds, Markets and Bond Valuations

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


Term Structure of Global Interest Rates


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


International Cost of Capital


**International Capital Budgeting and Real Options**


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


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


**International Taxation and Investments**


Hugh Dougherty
Lecturer-in-charge
July 2007


**Foreign Direct Investment**


