

## Hong Kong University of Science and Technology

### FINA 540 International Financial Management

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Office Hours: By appointment.

Students are also welcome to ask questions after every class.

### *Course Objectives and Overview*

This course examines the institutional features of international financial markets, and focuses on international corporate finance. Broad issues to be examined include how corporations could seek financing in international financial markets, manage exchange rate risk and perform a cross-border capital budgeting project. Students will be required to analyse and discuss cases that are related to some of these issues. The course has the following objectives:

- ✚ Study the basics of international finance, such as spot and forward markets, calculate percentage exchange rate changes, returns from investing overseas, etc.
- ✚ Know how to interpret balance of payments, and know its applications for analysing exchange rate changes, trade policies, and interest rate changes.
- ✚ Analyze international parity relations and examine how these parity relations may be used in some way (though not accurately) to forecast exchange rate changes.
- ✚ Know how corporate managers manage foreign exchange rate risk using currency futures, options and currency swaps.
- ✚ Analyse the tools that corporate managers may use to manage foreign exchange exposure of receivables and payables arising from international transactions. Tools include currency futures, options, etc.
- ✚ Analyse how exchange rate changes could affect the cash flows of a firm and hence the value of a firm. Exchange rate changes affect operating, financing and investing cash flows in a company's home currency.
- ✚ Examine the various foreign sources of financing that companies could tap into.
- ✚ Perform a capital budgeting project that involves exchange rate fluctuations and political risk.

### **Textbook:**

- a. International Financial Management by Cheol Eun and Bruce G. Resnick, 4<sup>th</sup> Edition, McGraw Hill, 2007. *Chapter readings are listed below.*

## Other Reference Books:

- b. International investments by Bruno Solnik and Dennis McLeavey,
- c. Multinational Financial Management by Shapiro, Alan.
- d. Multinational business finance by Eiteman, Stonehill, and Moffett (ESM), Pearson Addison Wesley.

Other good publications include the South China Morning Post, Wall Street Journal, Asian Wall Street Journal, Euromoney, etc.

## Useful links:

[www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook) website of The World Factbook published by the CIA provides background information, such as geography, government, and economy, of countries around the world.

[www.imf.org](http://www.imf.org) offers an overview of globalization and financial development.

[www.wto.org](http://www.wto.org) The World Trade Organization website covers news and data about international trade development.

[www.unctad.org](http://www.unctad.org) This UNCTAD website provides a broad coverage of cross-border investment activities by multinational corporations.

## **Course Outline**

1. Spot and Forward Markets  
Functions of the foreign exchange market. Foreign exchange market quotations. Premium and discounts on forward quotations. *Ch. 5*
2. Balance of payments  
Current account. Capital account. Changes in reserves. The meaning of a deficit or surplus. *Ch. 3*
3. International Parity Relations  
Theory of Purchasing Power Parity. Fisher Effect. International Fisher effect. Interest rate Parity. *Ch. 6*
4. International Banking and Money Markets\*\*  
International banking: types of offices, offshore banking centres, IBFs, capital adequacy. Eurocurrency Markets, Eurodollars and other Eurocurrencies. Asian Currency Market. Financing in the Eurocurrency markets, Euro-commercial paper, Euronotes, FRAs. International Banking Crises, *Ch. 11*
5. Sourcing international financing: international bond and equity markets\*\*  
Eurobonds. Foreign Bonds; Yankee bonds, Samurai bonds, Bulldogs. Floating Rate Notes. Syndicated Loans. Project Financing. Raising equity capital overseas. *Ch. 12 and 13*

6. Futures, Options and Swap Markets  
Foreign currency futures. Forward contracts. Foreign currency options. Options on futures contracts. Interest rate swaps and currency swaps *Ch 7 and 14*
7. Transaction Exposure  
Causes of transaction exposure. Managing transaction exposure; forward exchange market hedge, money market hedge, options market hedge, leads and lags, re-invoicing centers, swap agreements. *Ch. 8*
8. Operating Exposure  
Examples of Operating Exposure. Managing operating exposure; diversifying operations, diversifying financing. *Ch. 9*
9. Translation Exposure  
Is it worthwhile to hedge translation exposure? *Ch 10*
10. International Portfolio Investment  
Optimal International Portfolio Selection. Effects of changes in the exchange rate. *Ch 15*
11. Cross-border Investment and Political Risk Management  
FDIs. Analyse and manage political risk *Ch 16*
12. International capital structure and the cost of capital  
Cost of capital in segmented and integrated markets. *Ch 17*
13. International capital budgeting  
Capital budgeting from the Parent Firm's perspective. Risk adjustment in the capital budgeting *Ch 18*

***\*\* They are assigned as self-reading materials and may not be covered in lecture.***

### ***Grading***

One project: 25%

Two take-home assignments: 25%

Final Examination: 3-hour 50%

Final Exam Date: December 20 2007, 7:00 pm to 10:20 pm

Students would form groups to work on both the assignments and project. More details on the project and assignments will be given in class.