

Hong Kong University of Science and Technology
School of Business and Management
Fall 2008

FINA 540: International Financial Management

Instructor: V S Somanath, Adjunct Professor
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Office hours: By appointment

Teaching Assistant: Du Qianqian

Class time and location:

L1: Wednesdays, 29 October – 17 December, 19:00 – 22:2
Venue: 15/F, HK Club Building, 3 Charter Road, Central

L2: Saturdays, 1 November – 20 December, 14:30 - 17:50
Venue: Room 4621 (Lift 31- 32)

Course website: <http://lmes2.ust.hk>

Course description:

Understanding currency markets and currency exposure are essential for the conduct of global financial operations. The course presents theory and practice related to foreign exchange markets and discusses the use of such markets for investing, currency speculation, arbitrage and hedging. We begin with an examination of the international financial environment – balance of payments, exchange rate systems and international financial markets. Time permitting, other topics such as international real investments will be addressed.

TEXT:

Cheol S Eun and Bruce G Resnick, International Financial Management, 4th edition, McGraw-Hill, 2007. **(E&R)**

REFERENCES:

Bruno Solnik and Dennis McLeavey, Global Investments, 6th edition, Addison-Wesley, 2008

David K Eiteman, Arthur I Stonehill and Michael H Moffett, Multinational Business Finance, 11th edition, Addison Wesley (Pearson Education), 2006.

Alan C Shapiro, Multinational Financial Management, 8th edition, Wiley, 2006.

GRADE DETERMINATION:

- Final Exam: 65%
- Assignments
 - Global stock portfolio management exercise: 25%
 - Executive Brief (2 pages) on an international finance topic: 10%

ASSIGNMENTS:

Global stock portfolio management: Student teams, consisting of five members, will create and manage a global equity portfolio consisting of selected stocks from three countries. Each team begins with an initial investment amount of \$ 1,000,000 to be allocated across three global markets. Teams will make periodic investment decisions and calculate portfolio performance.

Submission deadlinet – December 10, 2008

Paper: Student teams, consisting of two members, will submit a two page executive brief on a topic in international finance. Bibliography/references should be listed on the third page. Any details can be attached as appendix. Topics may be selected from the areas of foreign exchange markets, other international financial markets, currency exposure, and international investing/investments.

Submission deadline – December 10, 2008

COURSE OUTLINE: (TENTATIVE OUTLINE – MAY BE MODIFIED AS THE COURSE PROGRESSES)

1. Balance of Payments

- Measures
- Economic effects
- Deficit correction

E&R – Chapters 1 and 3

2. International Monetary System (Exchange Rate Systems)

- Historic and current exchange rate systems
- Choosing an exchange rate system

E&R – Chapter 2

3. International Financial Markets

- International Money Markets (Eurocurrency Market)
- International Bond Markets
- International Equity Markets
- International Derivative Markets (Interest Rate and Currency Swaps)

E&R – Chapters 11(International Money Markets only), 12, 13, 14

4. International Portfolio Investment

- International Investing – currency issues
- International Diversification

E&R – Chapter 15

5. Foreign Exchange Markets

- Currency Contracts (spot, forward, foreign exchange swap)
- Exchange Rate Determination
- Profit opportunities in Currency markets (Currency Speculation and Arbitrage, Interest Rate Arbitrage)

E&R – Chapter 5 and 6(Interest Rate Parity)

6. Foreign Exchange – Other Aspects

- Theoretical parity conditions (Purchasing Power Parity, International Fisher Effect)
- Currency Forecasting

E&R – Chapter 6

7. Foreign Exchange – Derivatives

- Currency Futures
- Currency Options

E&R – Chapter 7

8. Currency Exposure

- Measuring Currency Exposure
- Managing Transaction Exposure
- Managing Economic Exposure

E&R – Chapters 8, 9