

Hong Kong University of Science and Technology  
School of Business and Management  
Fall 2009

FINA 540: International Financial Management

**Instructor:** V S Somanath, Adjunct Professor  
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**Class schedule and location:**

Saturdays 9:00 – 12:20, October 31 – December 19, 2009  
Venue: Room 3008 (Lift 4 - 5)

**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 capital budgeting and international working capital management will be considered.

**TEXT:**

Cheol S Eun and Bruce G Resnick, International Financial Management, 5<sup>th</sup> edition, McGraw-Hill, 2009.

**REFERENCES:**

Bruno Solnik and Dennis McLeavey, Global Investments, 6<sup>th</sup> edition, Addison-Wesley, 2008. (Available at HKUST Library)

David K Eiteman, Arthur I Stonehill and Michael H Moffett, Multinational Business Finance, 12<sup>th</sup> edition, Addison Wesley (Pearson Education), 2009. (Ordered by HKUST Library)

Alan C Shapiro, Multinational Financial Management, 9<sup>th</sup> edition, Wiley, 2009. (Available at HKUST Library)

Jeff Madura, International Financial Management, 9<sup>th</sup> edition, Thomson, 2008. (Not available at HKUST Library)

**Non-technical Articles** - a list of recent non-technical articles with links to the web is provided separately.

### **GRADE DETERMINATION:**

- Final Exam: 70%
- Assignments
  - Global stock portfolio management exercise: 23%
  - Executive Brief (2 pages): 7%

### **ASSIGNMENTS:**

**Global stock portfolio management:** Student teams, consisting of four or five members, will create and manage a global equity portfolio consisting of stocks from Hong Kong and two foreign stock markets. Each team begins with an initial investment amount of HK\$ 50,000 to be allocated across the three markets. Teams will make periodic investment decisions and calculate portfolio performance. Details are provided separately.

*Submission deadline – December 12, 2009*

**Executive Brief:** Student teams, consisting of two members, will submit a two page executive brief on a currency topic or a topic involving the practice of international finance. Bibliography/references should be listed on the third page. Any details such as graphs/charts and tables can be attached as appendix.

*Submission deadline – December 12, 2009*

**COURSE OUTLINE:**

<b>Class No.</b>	<b>Topic</b>	<b>Textbook Chapters</b>
1	<b>1. Basic currency and portfolio calculations</b> <b>2. Balance of Payments:</b> <ul style="list-style-type: none"><li>○ Measures</li><li>○ Economic Effects</li><li>○ Deficit Correction</li></ul>	1, 3
2	<b>1. Exchange Rate Systems</b> <ul style="list-style-type: none"><li>○ Historic and current exchange rate systems</li><li>○ Choosing an exchange rate system</li></ul> <b>2. International Financial Markets:</b> <ul style="list-style-type: none"><li>○ International Money Markets (Eurocurrency Market)</li><li>○ International Bond Markets</li><li>○ International Equity Markets</li><li>○ International Derivatives Markets- (Interest rate/Currency Swaps)</li></ul>	2, 11 (International Money Markets), 12, 13, 14
3	<b>1. Foreign Exchange Markets:</b> <ul style="list-style-type: none"><li>○ Currency Contracts (spot, forward, foreign exchange swap)</li><li>○ Exchange Rate Determination</li></ul>	5
4	<b>1. Foreign Exchange – Other Aspects:</b> <ul style="list-style-type: none"><li>○ Profit opportunities in Currency markets (Currency Speculation and Arbitrage, Interest Rate Arbitrage)</li><li>○ Theoretical parity conditions:<ul style="list-style-type: none"><li>○ Purchasing Power Parity</li><li>○ International Fisher Effect</li></ul></li><li>○ Currency Forecasting</li></ul>	6
5	<b>1. Foreign Exchange – Derivatives:</b> <ul style="list-style-type: none"><li>○ Currency Futures</li><li>○ Currency Options</li></ul>	7
6	<b>1. Currency Exposure</b> <ul style="list-style-type: none"><li>○ Measuring Currency Exposure</li><li>○ Managing Transaction Exposure</li><li>○ Managing Economic Exposure</li></ul>	8,9
7	<b>1. International Portfolio Diversification</b> <b>2. Selected aspects of International Capital Budgeting, International Working Capital Management</b>	15, 18, 19

