



International Finance: FINA 342

Hong Kong University of Science & Technology
School of Business and Management

Spring 2004

Instructor: Dr. Angela NG

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On-line Supplement: <http://webct.ust.hk/>

Course Description

This course provides a rigorous introduction to the fundamental principles of international financial management and investment. The main focus of the course is on foreign exchange and international capital markets. To this end, we develop the theories and quantitative tools that are necessary for global asset management and investment.

The course is organized into three parts. We begin with an introduction to the global financial environment and several important international macroeconomic concepts. Next we study the core of the material on foreign exchange. Topics to be discussed include foreign exchange and Eurocurrency markets, international parity propositions, currency risk exposure and hedging. Finally, we focus on international portfolio investment strategies, hedging of exchange rate risk in international portfolios, political risk and international asset pricing. Topics receiving considerable attention in the current media such as the Asian currency crisis will be discussed during the semester.

Prerequisites for this course are FINA 111, Financial Management and FINA 221, Investment Analysis and Portfolio Management, or equivalent.

Textbook

Fundamentals of Multinational Finance, by Michael H. Moffett, Arthur I. Stonehill, and David K. Eiteman, 2003, Addison Wesley.

Reference Books

Kirt C. Butler, 2000, *Multinational Finance*, Second Edition, South-Western College Publishing.

Alan C. Shapiro, *Multinational Financial Management*, Most recent edition, Prentice Hall.

Bruno Solnik, *International Investments*, Most recent edition, Addison-Wesley Publishing Company.

Grading

The grade for this course will be based on performance on the problem sets and two exams as follows:

☆ Problem sets	20%
☆ Term paper	15%
☆ Midterm exam	30%
☆ Final exam	35%

Problem Sets

- Three problem sets will be assigned during the semester. These exercises are meant to ensure that you understand the materials taught in class and will be very helpful for the exams.
- The problem sets are done in groups. Groups of 3 people (or 2 if necessary) must be formed for the homework assignments and should stay together until the end of the semester. Each group needs to submit only one write-up of each problem set, and all group members will receive the same grade for their work. It is, therefore, very important that all members contribute equally to each assignment.
- Please inform Mable (course assistant) of your group members by **February 12**. A group number will then be assigned to each group.
- Each problem set should contain a cover page showing the group number, names and student ID numbers of all group members who contribute to the assignment. Only those students whose names appear on the cover page will receive credit for the problem set.
- I do not want “free riders” within a group. Every group member should participate equally in each problem set. If “free ridership” occurs, you should *first* try to resolve the problem yourselves; and if this does not help, the *entire* group should schedule a meeting with me to discuss the issue.
- I will collect the problem sets in class on due dates. Late assignments will not be accepted.

Term Paper

- The objective of this term paper is for everyone to become familiar with foreign exchange rates.
- You are expected to work closely with your group members (those you work with for the problem sets) throughout the entire semester and generate discussions among each other.
- You are, however, required to prepare your own *individual* analysis/report.
- Practical information:
 - Your group will decide on one foreign currency (except the U.S. dollar) to study.
 - You will then keep a close look at its movements and any information or news about this foreign currency and its country.
- Requirements:
 - (1) Short Essays
 - A short essay question will be included in each problem set.
 - The essay questions are done in group.

(2) Individual Term Paper

- You will report and analyze the overall performance or movements of your selected foreign currency since the beginning of 2004.
- When preparing the report, you may want to consider the following questions:
 - ~ Has the currency appreciated or depreciated over the past months? By how much has it appreciated/depreciated?
 - ~ What are the reasons causing the appreciation/depreciation of the currency? For example, what has happened in the country and/or the rest of the world (especially the U.S.), are there any changes in government policies (like the interest rates)?
 - ~ What would be your forecast on the currency for the rest of 2004?
- You are required to write an individual analysis/report, similar to those you read from the newspapers or magazines (like *The Economist*, *Business Week*).
- The report, including tables and graphs, is limited to 2-3 pages (typed, 1.5 line or double spaced).

Exams

- o The midterm exam is scheduled for **March 30** (Time: 6:00-8:00pm, Venue: TBA). The exam will cover all the topics that are discussed in class.
- o The final exam is cumulative and will cover the entire course.
- o Unless I indicate otherwise, everything discussed in class may appear in the exams.
- o The exams will consist of quantitative problems, short essays, and true/false questions.
- o You are allowed to bring in a silent battery operated calculator to the exams. Use of mobile phone as a means of calculator is prohibited.
- o I will not reschedule the exams. If you have time conflicts with other courses, especially for the midterm, you will be responsible for making appropriate arrangements.
- o I do not give makeup exams as it is impossible to make an equivalent exam without placing the student at either an advantage or disadvantage.
- o Absence from the exams will not be excused, except for serious medical reasons with doctor's letter provided within one week of the exam.

Outside-Classroom Help

You are encouraged to make full use of the online supplement posted on WebCT (<http://webct.ust.hk>). There is a *Forum* section on WebCT. Most questions can be asked and answered in the *Forum*. It is highly likely that your question is the same question that a number of students have. The *Forum* makes it possible to share your questions and solutions to the rest of the class to enhance everyone's learning experience.

The course assistant is Mable Yeung. She will hold office hours on Tuesday and Wednesday afternoons. You are also welcome to send me emails with questions. If you choose to use email as a mean of communication, I will answer your questions in the *Forum* on WebCT, and you can reserve the right to have your identity kept confidential. If you need to talk to me in person, please send me an email or call me to schedule an office visit.

Other Important Policies/Notes

1. Name card (Bonus!)

I would like to get to know each one of you, or at least, learn your names by the end of the semester. I, therefore, need your help to turn in a name card with your recent photo. This is, of course, an optional exercise, but you will receive some bonus points in your midterm exam if you hand in one. You will get *two* extra points in your midterm score if you turn in the name card *with a picture* by February 12; but you will receive only *one* bonus point if you hand in the card *without* a picture. The blank name cards will be distributed to you and will also be available in the Finance Department office in Room 2413 during the first week of the semester.

2. Important dates

February 12	Email your group member list to Mable (mable@ust.hk) Turn in your name card with a recent picture
February 19	Problem Set 1 due
March 18	Problem Set 2 due
March 30	Midterm exam (Time: 6:00-8:00pm, Venue: LTA)
April 29	Problem Set 3 due
May 17	Term Paper due

3. Classroom conduct

- Both you and I will arrive at class on time. Late arrivals disrupt the class.
- You must attend the section that you register for.
- We will treat each other and our fellow classmates with respect.
- You will not talk in class except as part of class activities/discussion.
- All mobile phones and pagers must be turned off while in class. If you happen to forget to turn off your phone before class, you must do so as soon as possible or when it rings *without* answering the call.

4. Grading policy

- (a) I recognize that sometimes I or my assistant may grade a question incorrectly. If this occurs, you must notify me or the course assistant during the same week that the assignment or exam is returned back to you.
- (b) I personally am glad to regrade any assignment or exam. However, you must provide a *written* statement as to where and why there is a problem. Importantly, the entire assignment or exam will be regraded. As a result, the revised score may increase, remain unchanged or decrease.

5. Cheating

- (a) I have a *zero tolerance* policy for cheating of any kind. If you cheat, you will fail the course and may face further disciplinary actions.
- (b) Cheating occurs when you
 - ~ look at lecture notes, unauthorized materials, or other students' papers during an exam;
 - ~ obtain help from faculty or students outside your own group on homework assignments; or
 - ~ help another student to cheat.
- (c) Plagiarizing is considered as a form of cheating. Plagiarism occurs when you copy a large portion of someone's material/work without referencing it.

Class Schedule

I. Global Finance Environment

- Feb. 3 Class 1: Introduction to Global Finance (Lesson01.pdf; MSE, Ch.1)
- Feb. 5 Class 2: Balance of Payments (Lesson02.pdf; MSE, Ch.3)
- Feb. 10 Class 3: Balance of Payments, Cont'd
- Feb. 12 Class 4: Balance of Payments, Cont'd
- Feb. 17 Class 5: International Monetary Systems (Lesson03.pdf; MSE, Ch.2)
- Feb. 19 Class 6: International Monetary Systems, Cont'd
- ☛ *Problem Set 1 due!*
- Feb. 24 Class 7: Hong Kong Currency Board
- ☆ Guest Speaker: Dr. Wensheng PENG, HKMA
 - ☆ Time: 6:00-7:30pm
 - ☆ Venue: TBA

II. Foreign Exchange Markets

- Feb. 26 Class 8: Market Structure (Lesson04.pdf; MSE, Ch.6)
- Mar. 2 Class 9: Market Structure, Cont'd
- Mar. 4 Class 10: **Special Library Session on Reuters**
- ☆ Conductor: Sam Chu, librarian
 - ☆ Venue: TBA
- Mar. 9 Class 11: Market Structure, Cont'd
- Mar. 11 Class 12: International Parity Conditions I: Purchasing Power Parity (Lesson05.pdf; MSE, Ch.4)
- Mar. 16 Class 13: Purchasing Power Parity, Cont'd
- Mar. 18 Class 14: International Parity Conditions II: Covered and Uncovered Interest Rate Parity (Lesson06.pdf; MSE, Ch.4)
- ☛ *Problem Set 2 due!*
- Mar. 23 Class 15: Uncovered Interest Rate Parity, Cont'd
- Mar. 25 Class 16: Midterm Review
- Mar. 30 Class 17: ☛ **Midterm** ☛
- Apr. 1 Class 18: Exchange Rate Forecasting (Lesson07.pdf; MSE, Ch.5)
- Apr. 13 Class 19: Currency Derivatives I: Currency Futures (Lesson08.pdf; MSE, Ch.7)
- Apr. 15 Class 20: Currency Futures, Cont'd
- Apr. 20 Class 21: Currency Derivatives II: Currency Options, (Lesson09.pdf; MSE, Ch.7)

- Apr. 22 Class 22: FX Trading and Hedging
☆ Guest Speaker
☆ Time: 6:00-7:30pm
☆ Venue: TBA
- Apr. 27 Class 23: Exposure to Currency Risk (Lesson10.pdf; MSE, Ch.8-10)
- Apr. 29 Class 24: Exposure to Currency Risk, Cont'd
●* *Problem Set 3 due!*

III. International Investment

- May 4 Class 25: World's Capital Markets and Country Risk (Lesson11.pdf; MSE, Ch.17)
- May 6 Class 26: International Portfolio Investment (Lesson12.pdf; MSE, Ch.19)
- May 11 Class 27: International Portfolio Investment, Cont'd
- May 13 Class 28: Final Review
- May 17 ●* *Term Paper due!*