

**The Hong Kong University of Science and Technology  
Business School  
Department of Finance**

**Spring 2007**

**FINA 342: International Finance  
M & W 14:00 - 15:20 (L1) & 15:30 - 16:50 (L2)  
Rm 2304**

**Instructor: Professor Yiuman Tse**  
**Office: Rm 2375 (Rm 2422 from Jan 22 – 31)**  
**Phone: 2358 7670 (2358 7630 from Jan 22 – 31)**  
**Email: ytse@ust.hk**  
**Office Hours M&W 17:00-18:00 pm or by appointment**

**Text:** *Lecture Note*

**References:** *International Corporate Finance*, 2006, 8th Edition, Jeff Madura, West Publishing Company  
*Investments*, 2005, 6<sup>th</sup> Edition, Bodie, Kane, Marcus.  
*The Wall Street Journal*, *Business Week*, *Fortune*, and *The Economist*

**Prerequisites:** FINA 111 Financial Management  
FINA 221 Investment Analysis and Portfolio Management

**Goal:**

1. To provide a background on the international environment and to focus on the managerial aspects from a corporate perspective.
2. To analyze the key financial markets and instruments that facilitate trade and investment activity on a global scale.

**Syllabus:** Financing international trade and investments; foreign exchange markets and exchange rates; balance of payments; current developments in international financial cooperation; international financial markets. The following topics with emphasis on the international environment are also covered: risk and return, market efficiency, capital structure, and dividend policy.

<b>Grade:</b>	Midterm (March 19)	.20
	Final (May 21 -31)	.40
	Quiz and Homework	.18
	Term Project (May 14)	.17
	Class Participation	.05

Quizzes on the current issues of *The Wall Street Journal et al.* and materials preassigned will be given *every Wednesday*. No make-up quizzes and exams will be given and late assignments are not accepted. All exams and quizzes are closed book. Final will include most of the topics before midterm.

**Class Schedule (Subject to Change):**

<u>Week</u>	<u>Content</u>
Jan 29	<p>Introduction            Goal of Financial Management, (p.1,2)            Corporate Governance in the U.S., Germany, and Japan (p.3-4)            Cost of Benefit of MNCs (p.5)            Homework 1 (Answers on p.49-50, Scharfstein and Stein (1990))</p> <p>Discussion on Term Project:</p> <ol style="list-style-type: none"> <li>1. International Investment/Diversification in Stock Markets</li> <li>2. Gold and Silver</li> <li>3. Oil/Petroleum</li> <li>4. Japanese Yen</li> <li>5. Euro</li> </ol>
Feb 5	<p>International Business Methods (p.16)            International Stock Markets (p.6,7,14,15,86-92)            Introduction to Foreign Exchange Market (pp.17-18)            International Flow of Funds (p.11)            International Corruption Perception Index (p.48,52)  <b>Quiz 1 (Wed)</b></p>
Feb 12	<p>Factors that Influence Exchange Rates (p.21,22)            Agencies that Promote International Flows (p.23)            Eurocurrency Market* (papers)  <b>Quiz 2 (Wed)</b></p>
Feb 26	<p>Introduction to International Financial Markets (papers)            Currency Derivatives (p.37-38)  <b>Quiz 3 (Wed)</b></p>
Mar 5	<p>Managing Growth (p.77-81)            Exchange Rate Systems (p.51,53)            A Single European Currency  <b>Quiz 4 (Wed)</b></p>
Mar 12	<p>Government Intervention (p.19,20)            Review on Risk and Return, Market Efficiency (pp.12-13,15)            Financial Ratios (p.25-26)  <b>Quiz 5 (Wed)</b></p>
Mar 19	<p>Special Topics in International Finance  <b>Midterm (Mon)</b></p>
Mar 26	<p>Review of Capital Structure and Dividend Policy (p.29-32)            Effects of Exchange Rate Changes in Financial Statements (pp.9-10)  <b>Quiz 6 (Wed)</b></p>
Apr 2 and 11	<p>Multinational Cost of Capital and Capital Structure (pp. 39-47)            International Market Liquidity and Market Segmentation (p.28)</p>

### **Quiz 7 (Wed)**

Apr 16 Letter of Credit (p.69-70)  
Designing the Financial Structure (pp.31-32)

### **Quiz 8 (Wed)**

Apr 23 Macroeconomic Analysis in International Finance (p.33-34)  
Interest Rate Parity (p. 35-36)  
Closed-End Country Funds (p.84)

### **Quiz 9 (Wed)**

Apr 30 Transaction Exposure, Economic Exposure\*, Translation Exposure (pp.24, 54-68)  
Relationship between inflation, interest rates, and exchange rates (p.82-83)

### **Quiz 10 (Wed)**

May 7 Favorable country conditions for equity investments? (p.74-75)  
Using Swaps to Hedge Financial Costs (p. 76)

May 14 **Project Presentations (Mon)**  
**Review**

May **Final**

*Note:* Sections marked with \* may be covered in part or omitted if time is short.

---

## **International Finance**

### **Weekly Agenda January 29, 2007**

1. Introduction
2. Goal of Financial Management (p.1-2)
  - SWM vs. CWM
  - Market Efficiency
3. AT&T's acquisition of NCR (p.4)
4. Governance and Control in the U.S., Germany, and Japan (p.3)
5. Cost of Benefit of MNCs (p.5)