

FINA 342, International Finance
Hong Kong University of Science and Technology
Spring 2009, Tue&Thu 16:30-17:50, Room 3006

Instructor: Dr. Du Du

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Office hour: Tue/Thu 12:00-1:00pm

On-line Supplement: <http://lmes2.ust.hk/portal>

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As the instructor, I have the following **responsibilities**:

1. Come prepared to every class with well thought-out presentation.
2. Consider that it is not always your fault if you do not understand the material.
3. Create a mutually respectful classroom environment.
4. Recognize that sometimes the TA or I may grade a question incorrectly and not to get defensive when you politely question my grading

As students, you have the following **responsibilities**:

1. Come prepared to every class by reviewing previous notes and doing assignments.
2. Complete all work on time with proper thought.
3. Consider that it is not always my fault if you do not understand the material.
4. Treat others and me with respect.
5. Asking questions when you do not understand. Asking questions is a sign of maturity, not ignorance.

Welcome to my class!

Course description:

This course provides a rigorous introduction to the fundamental principles of international financial management and investment. There are two main goals in this course:

1. To provide a solid background on the international environment with the focus on the asset pricing aspects from the perspectives of both multinational corporations and global individual investors.
2. To analyze the key financial markets and instruments that facilitates trade, hedging, and investment activities on a global scale.

In addition, I will also talk about various trading-related issues, which gives you good preparations to trade in both the foreign exchange markets and the international equity markets.

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

Textbook/Reference book:

- Textbook: International Financial Management, by Cheol S. Eun and Bruce G. Resnick, 2005, fourth edition, McGraw Hill
- Reference book: Fundamentals of Multinational Finance, by Michael H. Moffett, Arthur I. Stonehill, and David K. Eiteman, 2006, second edition, Addison Wesley

Grading

- The course grade will be based on, homework assignments, midterm and final exams. The relative weights are as follows

Homework:	20%
Midterm exam	30%
Final exam	50%

Homework

- 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 2 or 3 people must be formed for the homework assignment 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
- Please inform TA (TBA) of your group members by Feb. 17.
- 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
- Late assignments will NOT be accepted.

Exams

- The midterm is scheduled on April 7 (Time: 18:20-20:00, Venue: TBA). The exam will cover all the topics discussed up to the time
- The final exam is cumulative and will cover the entire course materials
- Unless I indicate otherwise, everything discussed in class may appear in the exams
- The exams will consist of multiple choice problems, quantitative problems, and short essays,
- You are allowed to bring in a silent battery operated calculator to the exams.
- I will not reschedule the exams. If you have time conflicts, especially with the midterm, you will be responsible for making appropriate arrangements
- I do not give makeup exams, as it is unlikely to make an equivalent exam without placing the student at either an advantageous or disadvantageous position

- Absence from the exams will not be excused, except for serious medical reasons with doctor's letter provided within one week before the exam
- I have a zero tolerance of cheating of any kind. If you cheat, you will fail the course and may face further disciplinary actions.

Classroom conduct

- Both you and I are supposed to arrive at class on time.
- Please bring with you a finance calculator in case of quizzes.
- You will not talk in class except as part of class discussion
- All mobile phones and pagers must be turned off while in class. If you happen to forget to turn off your phone before the class, you must do so as soon as possible without answering the call

Class participation and in-class exercises

- Do not hesitate to interrupt me to ask a question whenever you have one during the class. Asking question is a sign of maturity, not ignorance.
- From time to time, I will give you in-class exercises in the form of multiple choice problems. The exercises will NOT be graded, and I will talk about the answers to the exercises in the form of class discussion.
- The purpose of the exercises is to prompt you to think about class materials we have recently covered, to give you further examples on these materials, and to let me participate more in class. The discussion of exercises is an important of class participation.

Out-of-class help

- You are encouraged to make full use of the online supplements posted on LMES at <http://lmse2.ust.hk/portal>
- It is a better idea to first check the discussion section on LMES before asking a question, because it is possibly that your question is already answered there.
- The teaching assistant will hold office hours twice a week.
- If you are not satisfied with the TA's answers, or simply if you prefer it, send me questions via phone calls or emails (preferred). Most emails will be answered within a few hours, and I guarantee replying to emails within 24 hours.
- I will hold two review sessions prior to the midterm and the final. I will NOT cover new materials during the review sessions. I will only answer questions during the session and perhaps do additional problems.
- If you need to ask me questions in person when it is not in class. Send me an email to schedule an appointment.

Course Schedule

(corresponding chapters in the textbook by Eun and Resnick)

Part I: Exchange rate determination and exchange rate arrangements

Feb. 3	Class 1	Introduction (Ch1)
Feb. 5	Class 2	FX market, exchange rate quotations (Ch5)
Feb. 10	Class 3	LOOP and triangular arbitrage (Ch5)
Feb. 12	Class 4	PPP (Ch6)
Feb. 17	Class 5	forward prices and forward market (Ch6; Ch5)
Feb. 19	Class 6	IRP (Ch6)
Feb. 24	Class 7	IRP, Various other relations (Ch6)
Feb. 26	Class 8	Various other relations (Ch6)
Mar. 3	Class 9	Balance of payments (Ch3)

Problem Set 1 due on Mar. 3 in class

Mar. 5	Class 10	Balance of payments, continued (Ch3)
Mar. 10	Class 11	International monetary system (Ch2)
Mar. 12	Class 12	International monetary system, continued (Ch2)
Mar. 17	Class 13	International monetary system, continued (Ch2)
Mar. 19	Class 14	forecasting exchange rate (Ch6)

Part II: Trading in FX market and its derivative markets for hedging and speculation

Mar. 24	Class 15	bid-ask spread and its effects on triangular arbitrage (Ch5)
Mar. 26	Class 16	effects of bid-ask spreads in IRP; currency futures (Ch6; Ch7)
Mar. 31	Class 17	currency futures; continued (Ch7)
Apr. 2	Class 18	midterm review session

Problem Set 2 due on Apr. 2 in class

Apr. 7	Class 19	midterm (time: 18:00-20:00; venue: TBA)
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Spring break

Apr. 16	Class 20	Interest rate futures (Ch7)
Apr. 21	Class 21	<i>special reuter's session conducted by Gina</i> (time 16:30-17:50; venue: TBA)
Apr. 23	Class 22	currency options and currency futures options (Ch7)
Apr. 28	Class 23	currency options and currency futures options, continued (Ch7)
Apr. 30	Class 24	interest rate and currency swaps (Ch14)
May 5	Class 25	management of transaction exposure (Ch8)
May 7	Class 26	management of transaction exposure, continued (Ch8)
May 12	Class 27	management of transaction exposure, continued (Ch8)
May 14	Class 28	Final review session

Problem Set 3 due on May 14 in class