

Hong Kong University of Science and Technology

FINA 690M International Financial Management
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Course Objectives and Overview

This course examines the institutional features of international financial markets, and focuses on international corporate finance. Broad issues to be examined include how corporations could seek financing in international financial markets, manage exchange rate risk and perform a cross-border capital budgeting project. Students will be required to analyse and discuss cases that are related to some of these issues. The course has the following objectives:

- ✚ Study the basics of international finance, such as spot and forward markets, calculate percentage exchange rate changes, returns from investing overseas, etc.
- ✚ Know how to interpret balance of payments and know its applications for analysing exchange rate changes, trade policies, and interest rate changes.
- ✚ Analyze international parity relations and examine how these parity relations may be used in some way (though not accurately) to forecast exchange rate changes.
- ✚ Know how corporate managers manage foreign exchange rate risk using currency futures, options and currency swaps.
- ✚ Analyse the tools that corporate managers may use to manage foreign exchange exposure of receivables and payables arising from international transactions. Tools include currency futures, options, etc.
- ✚ Analyse how exchange rate changes could affect the cash flows of a firm and hence the value of a firm. Exchange rate changes affect operating, financing and investing cash flows in a company's home currency.
- ✚ Examine the various foreign sources of financing that companies could tap into.
- ✚ Perform a capital budgeting project that involves exchange rate fluctuations and political risk.

Textbook:

- a. International Financial Management by Cheol Eun and Bruce G. Resnick, 3rd Edition,

McGraw Hill, 2004.

Other Reference Books:

- b. International investments by Bruno Solnik and Dennis McLeavey, 5th ed., 2003.
- c. Multinational Financial Management by Shapiro, Alan, 7th ed., 2003.
- d. Multinational business finance by Eiteman, Stonehill, and Moffett (ESM), 10th ed., Pearson Addison Wesley, 2004.

Other good publications include the South China Morning Post, Wall Street Journal, Asian Wall Street Journal, Euromoney, etc.

Course Outline

1. Spot and Forward Markets

Functions of the foreign exchange market. Foreign exchange market quotations. Premium and discounts on forward quotations.

2. Balance of payments

Current account. Capital account. Changes in reserves. The meaning of a deficit or surplus.

3. International Parity Relations

Theory of Purchasing Power Parity. Fisher Effect. International Fisher effect. Interest rate Parity.

4. Futures and Option Markets

Foreign currency futures. Forward contracts. Foreign currency options. Options on futures contracts.

5. Transaction Exposure.

Causes of transaction exposure. Managing transaction exposure; forward exchange market hedge, money market hedge, option market hedge, leads and lags, re-invoicing centers, swap agreements.

6. Operating Exposure

Examples of Operating Exposure. Managing operating exposure; diversifying operations, diversifying financing.

7. Translation Exposure

Is it worthwhile to hedge translation exposure?

8. Eurocurrency Markets

Eurodollars and other Eurocurrencies. Asian Currency Market. Financing in the Eurocurrency markets.

9. Sourcing financing in international bond and equity markets

Eurobonds. Foreign Bonds; Yankee bonds, Samurai bonds, Bulldogs. Floating Rate Notes. Euro-commercial paper. Syndicated Loans. Project Financing. Raising equity capital overseas.

10. Political Risk Management and Cross-border capital budgeting

Analyse and manage political risk, capital budgeting for a project located in a foreign jurisdiction.

Grading

One project: 25%

Two take-home case analyses assignments: 25%

Final Examination: 50%

Students would form groups to work on both the assignments and project. More details on the project and assignments will be given in class.