IB/FI 355 INTERNATIONAL FINANCE
IES Abroad Rome

DESCRIPTION:
The principal objective of this course is to explain and analyze the main financial challenges to companies in an international context. Globalization, or the increasing economic integration of goods, services and financial markets at the international level, represents both opportunities and threats for governments and enterprises.

There is one main dimension separating domestic finance and international finance: International risk. Fluctuations in exchange rates, interest rates, and inflation require risk identification, risk measurement and hedging, important tasks for international finance.

This course provides discussions of some of the main challenges of international financial transactions. It is divided into two sections: In the first section, the student will be familiarized with exchange rate determination, balance of payments, the international monetary system, the European Monetary System and the parity conditions in real markets and financial markets. In the second section, they will examine the different derivatives for hedging (options, forwards, futures, and swaps), and exposure measurement (translation, transaction and economic exposure).

CREDITS: 3 credits

CONTACT HOURS: 45 hours

LANGUAGE OF INSTRUCTION: English

PREREQUISITES: None. At least one college-level business course recommended

ADDITIONAL COST: Case study fee

METHOD OF PRESENTATION:
- The professor will use lectures to introduce the key materials, and class discussions to encourage students to share their understanding of these materials.
- Students will use worksheets and mini-case studies to gain practical experience of the key points.
- They will read relevant contemporary articles before class, and relevant videos will be shown before or during class sessions, to link the theoretical topics discussed to current events.

REQUIRED WORK AND FORM OF ASSESSMENT:
- Midterm exam - 25%
- Final exam - 25%
- Class participation - 10%
- Individual and/or group assignments - 20%
- Final project - 20%

Midterm and Final exam
The midterm and final exams will cover all material studied during the course – theory, case studies, course-related trips, and final projects. The exams will take the form of quizzes and/or practical exercises designed to test students' theoretical and practical understanding of the topics covered in class.

Class participation
The class participation grade will take into account students' active participation in class discussions, their ability to introduce ideas and thoughts dealing with the required texts, effective use of technical language, and their analytical skills in intellectual, constructive argumentation. When determining the class participation grade, the professor will consider traditional criteria such as material preparation, completed reading before class, and collaborative group work.

Students are expected to deliver worksheets and solutions to problems.

Students will discuss a case (additional costs may be assumed by the student) as a final project. This assignment will be partly a group project. Papers should be no longer than 2,000 words, double spaced, Verdana 12.

LEARNING OUTCOMES:

By the end of the course, students will be able to:

- Explain the environment and factors associated with foreign exchange rate determination.
- Summarize foreign exchange terminology.
- List and explain the various forms of financial instruments available for foreign exchange risk management.
- Compare and evaluate the key economic theories that underlie the foundation of foreign exchange risk management.
- Assess the basic strategies and techniques associated with foreign exchange risk management.

ATTENDANCE POLICY:

As a member of our class community, you are expected to be present and on time every day. Attending class has an impact on your learning and academic success. For this reason, attendance is required for all IES Rome classes, including course-related excursions. If a student misses more than three classes in any course without justification, 3 percentage points will be deducted from the final grade for every additional absence. Seven unjustified absences in any course will result in a failing grade. Absences will only be justified, and assessed work, including exams, tests and presentations rescheduled, in cases of documented medical or family emergencies.

CONTENT:

Session	Content	Assignments
Session 1	**Introduction to International Finance. Course Overview**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 1, 3-35 • Chu, M. (2012). "Play it Safe at Home, or Take Risk Abroad?" Boston: *Harvard Business Review*. Case study.
Session 2	**The Determination of Exchange Rates**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 2, 37-62
Session 3	**The Determination of Exchange Rates (exercises)**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 2, 37-62
Session 4	**The Determination of Exchange Rates (exercises)**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 2, 37-62

Session	Content	Assignments
Session 5	**The Balance of Payments (and exercises)**	• Shapiro, A. C., Hanouna, P. (2019). Multinational Financial Management 11th edition, New York: John Wiley & Sons. Chapter 5, 139-164 • Gould, D.; Ruffin, R. (1996). Trade Deficits: Causes and Consequences. Econ Review, Dallas Fed, 4th qt. • Alan, G. (2007). Balance of Payments Imbalances. The Per Jacobsson Foundation, • Shapiro, A. C. (2009). Multinational Financial Management 9th edition, New York: John Wiley & Sons. Questions 7 & 8 and Problems 1, 2 and 3, 224-225. • Moss, D. (2007). “Reading a Balance of Payments”. Boston: Harvard Business Review. Chapter 6.
Session 6	**The Foreign Exchange Market**	• Shapiro, A. C., Hanouna, P. (2019). Multinational Financial Management 11th edition, New York: John Wiley & Sons. Chapter 6, 167-188 • Evans, M. (2005). Foreign Exchange Market Microstructure, in Georgetown University and NBER, May.
Session 7	**The Foreign Exchange Market (exercises)**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 7, 189-215 • Desai, M. et al. (2008). Foreign Exchange Market and Transactions. Boston: Harvard Business Review.
Session 8	**Parity Conditions in International Finance**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 4, 101-137

Session	Content	Assignments
Session 9	**The International Monetary System and The European Monetary System**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 3, 63-100 • Sargent, T. (1999). A Primer on Monetary and Physical Policy. *Journal of Banking and Finance*, 23, 1463-1482. • Dominguez, K. (1998). Central Bank Intervention and Exchange Rate Volatility. *Journal of International Money and Finance*, 17, 161-190.
Session 10	**Guest Speaker**	
Session 11	**Exam Review**	• Bekaert, G., Gray, S. (1998). Target Zones and Exchange rates: An Empirical Investigation. *Journal of International Economics*, 45.
Session 12	**Midterm exam**	
Session 13	**Currency Futures and Options**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 7, 189-215 • Bligh, C. (2012). Foreign currency hedging. *Financial Management*, March.
Session 14	**Currency Futures (exercises)**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 7, 189-215
Session 15	**Currency Futures (exercises)**	• Conroy, Robert (2008). Forwards and Futures. Boston: *Harvard Business Review*.
Session 16	**Currency Options (exercises)**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 7, 189-215
Session 17	**Currency Options (exercises)**	• Conroy, R. (2008). Options on Stock Indexes, Currencies and Futures. Boston: Harvard Business Review.

Session	Content	Assignments
Session 18	**Interest rate and currency swaps**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 8, 217-241 • Chernenko, S.; Faulkner, M. (2011). The two sides of derivatives usage: Hedging and speculating with interest rate swaps- *Journal of financial and quantitative analysis*, June. • Kester, C. (2002). Note on Foreign Currency Swap. Boston: *Harvard Business Review*. Case study 292043.
Session 19	**Guest speaker**	
Session 20	**Translation exposure**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 9, 285-243 • Pantzalis, C.; Simkins; Betty, J. Operational hedges and the foreign exchange exposure of U.S Multinational corporations. *Journal of International Business Studies*, December 22.
Session 21	**Transaction exposure**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 9, 285-243 • Hagelin, N. (2004). Empirical evidence on the incentives to hedge transaction and translation exposure. In: *the Swedish national debt office and Stockolm University School of Business* (working paper), August. • Dimitrescu, D. (2009). Managing Transaction Exposure. *Annales Univesitatis Apulensis Series Oeconomica* (working paper), January.
Session 22	**Economic exposure**	• Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 10, 287-322 • Miller, K. (2004). Firm Strategy and Economic Exposure to Foreign Exchange Rate Movements. *Purdue CIBER working papers*. (Working paper) • Lipson, M. (2009). Economic Exposure. Boston: *Harvard Business Review*.

Session	Content	Assignments
Session 23	**Case discussion**	• Foley, C.F., Johnson, M.S. (2010). Belco Global Foods. Harvard Business School. Case 9-211-033.
Session 24	**Course review and final exam review.**	

REQUIRED READINGS:

The sessions will be mainly based on contents from the book Shapiro, A. C., Hanouna, P. (2019). Multinational Financial Management 11th edition, New York: John Wiley & Sons.

- Bekaert, G., Gray, S. (1998). Target Zones and Exchange rates: An Empirical Investigation. Journal of International Economics, 45.
- Bligh, C. (2012). Foreign currency hedging. *Financial Management*, March.
- Chernenko, S., Faulkner, M. (2011). The two sides of derivatives usage: Hedging and speculating with interest rate swaps. *Journal of financial and quantitative analysis: JFQA.* (June).
- Chu, M. (2012). Play it Safe at Home, or Take Risk Abroad?. Boston: *Harvard Business Review*.
- Conroy, R. (2008). Forwards and Futures. Boston: *Harvard Business Review*.
- Conroy, R. (2008). Options on Stock Indexes, Currencies and Futures. Boston: *Harvard Business Review*.
- Desai, M. et al. (2008). Foreign Exchange Market and Transactions. Boston: Harvard Business Review.
- Dimitrescu, D. (2009). Managing Transaction Exposure. *Annales Univesitatis Apulensis Series Oeconomica* (working paper), January.
- Dominguez, K. (1998). Central Bank Intervention and Exchange Rate Volatility. *Journal of International Money and Finance*, 17, 161-190.
- Evans, M. (2005). Foreign Exchange Market Microstructure, in *Georgetown University and NBER*, May, 14.
- Foley, C.F., Johnson, M.S. (2010). Belco Global Foods. Harvard Business School. Case 9-211-033.
- Gould, D. ; Ruffin, R. (1996). Trade Deficits: Causes and Consequences. *Econ Review*, Dallas Fed.
- Greenspan, A. (2007). Balance of Payments Imbalances. *The Per Jacobsson Foundation*.
- Hagelin, N. (2004). Empirical evidence on the incentives to hedge transaction and translation exposure, in: *Swedish national debt office and Stockolm University School of Business* (working paper), August.
- Kester, C. (2002). Note on Foreign Currency Swap. Boston: *Harvard Business Review*. Case study 292043.
- Lipson, M. (2009). Economic Exposure. Boston: Harvard Business Review. (Background note)
- Miller, K., (2004) Firm Strategy and Economic Exposure to Foreign Exchange Rate Movements. Purdue CIBER working papers. (Working paper)
- Moss, D. (2007). Reading a Balance of Payments. Boston: Harvard Business Review. Chapter 6,.
- Pantzalis, C.; Simkins; Betty, J. (2001) Operational hedges and the foreign exchange exposure of U.S Multinational corporations. *Journal of International Business Studies*.
- Sargent, T. (1999). A Primer on Monetary and Physical Policy. *Journal of Banking and Finance*, 23, 1463-1482.Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 1, 3-35
- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 2, 37-62.
- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 3, 63-100.
- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 4, 101-137.

- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 5, 139-164.
- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 6, 167-188.
- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 7, 189-215.
- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 8, 217-241.
- Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 9, 285-243.
  Shapiro, A. C., Hanouna, P. (2019). *Multinational Financial Management* 11th edition, New York: John Wiley & Sons. Chapter 10, 287-322.

RECOMMENDED READINGS:

- Brealey, R. (2011). Fundamentals of Corporate Finance, 7th Edition, Mc-Graw Hill, 2011.
- Madura, J. ; Fox, R. (2011). International Finance Management, 2nd. Edition, South Western College.
- Moffet, M. (2013). Fundamentals of Multinational Finance, 4th Edition, Pearson.
- Rahnema, A. (2007). Finanzas Internationales, Deusto S.A. Ediciones (Spanish).

Other sources:
Wall Street Journal, Financial Times, "Expansión" (Spanish), "*Cinco Días*" (Spanish).