



IB/FI 355 INTERNATIONAL FINANCE

IES Abroad Spain

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.

METHOD OF PRESENTATION:

- This course will be taught in an online format.
- 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%).

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 practical exercises designed to test students’ theoretical and practical understanding of the topics covered in class.

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 take into account traditional criteria such as material preparation, completed reading before class, and collaborative group work.

IES Abroad is compliant with international and US copyright laws. It obtains permission from publishers to reproduce materials in electronic format or in course readers. Please, note that the copyright for this syllabus is retained both by the instructor and IES Abroad Barcelona.

Global brilliance begins here.®

Institute for the International Education of Students
Africa | Asia Pacific | Europe | Latin America



Students are expected to deliver worksheets and solutions to problems delivered each session.

Students will research a topic in international finance (topics will be assigned by the instructor). This assignment will be a group project comprising two parts: The first part will be a PowerPoint presentation, and the second part a written paper. No late submissions will be accepted. Papers should be 8 pages, double spaced, Verdana 11.

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:

Attendance is mandatory for all IES Abroad classes, including course-related trips. Any exams, tests, presentations, or other work missed due to student absences can only be rescheduled in cases of documented medical or family emergencies. If a student misses more than three classes in any course 3 percentage points will be deducted from the final grade for every additional absence. Seven absences in any course will result in a failing grade.

CONTENT:

Session	Content	Required Reading
Session 1	Course Overview. Introduction to International Finance	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 1, pp 2-56 • Chu, Michael (2012). "Play it Safe at Home, or Take Risk Abroad?" Boston: <i>Harvard Business Review</i>. Case study, 4 pp
Session 2	The Determination of Exchange Rates	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 2, pp 57-98
Session 3	The Determination of Exchange Rates (exercises)	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Questions 9 & 10 and Problems 1, 2 and 3 (pp 96-97)
Session 4	The Balance of Payments	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 5, pp 193-225

IES Abroad is compliant with international and US copyright laws. It obtains permission from publishers to reproduce materials in electronic format or in course readers. Please, note that the copyright for this syllabus is retained both by the instructor and IES Abroad Barcelona.

		<ul style="list-style-type: none"> • David Gould and Roy Ruffin, “Trade Deficits: Causes and Consequences,” <i>Econ Review</i>, Dallas Fed, 4th qt. 1996, 11 pp. • Alan, Greenspan, “Balance of Payments Imbalances”, <i>The Per Jacobsson Foundation</i>, 2007, 32 pp.
Session 5	The Balance of Payments (exercises)	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management 9th edition</i>, 2009, New York: John Wiley & Sons. Questions 7 & 8 and Problems 1, 2 and 3 (pp 224-225). • Moss, David (2007). “Reading a Balance of Payments”. Boston: Harvard Business Review. Chapter 6, 32 pp.
Session 6	The Foreign Exchange Market	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management 9th edition</i>, 2009, New York: John Wiley & Sons. Chapter 7, pp 264-291 • Evans, Martin. “Foreign Exchange Market Microstructure”, in <i>Georgetown University and NBER</i>, May 2005, 14 pp.
Session 7	The Foreign Exchange Market (exercises)	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management 9th edition</i>, 2009, New York: John Wiley & Sons. Questions 1 & 3 and Problems 9 & 10 (pp 290-291) • Desai, Mihir et al. (2008). “Foreign Exchange Market and Transactions”. Boston: Harvard Business Review. (Background note, 28 pp)
Session 8	Parity Conditions in International Finance	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management 9th edition</i>, 2009, New York: John Wiley & Sons. Chapter 4, pp 142-192
Session 9	The International Monetary System and The European Monetary System	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management 9th edition</i>, 2009, New York: John Wiley & Sons. Chapter 3, pp 99-141 • Sargent, Thomas, “A Primer on Monetary and Physical Policy,” <i>Journal of Banking and Finance</i>, 23, pp 1463-1482, 1999. • Dominguez, Kathryn, “Central Bank Intervention and Exchange Rate Volatility,” <i>Journal of International Money and Finance</i>, 17, pp 161-190, 1998.

IES Abroad is compliant with international and US copyright laws. It obtains permission from publishers to reproduce materials in electronic format or in course readers. Please, note that the copyright for this syllabus is retained both by the instructor and IES Abroad Barcelona.

Session 10	Guest speaker	<ul style="list-style-type: none"> • Guest speaker Alex Martinez: The European Union (and Institutions), the Euro and the Euro Crisis
Session 11	Exam Review	<ul style="list-style-type: none"> • Bekaert, G., and Gray, S., "Target Zones and Exchange rates: An Empirical Investigation," <i>Journal of International Economics</i>, 45, 1998, 45 pp.
Session 12	Midterm exam	
Session 13	Currency Futures and Options	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 8, pp 292-327 • Bligh, Christine. "Foreign currency hedging", in <i>Financial Management</i>, March 2012. (Background note, 4 pp)
Session 14	Currency Futures (exercises)	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Question 1 and Problems 8,9,& 10 (pp 320-327) • Conroy, Robert (2008). "Forwards and Futures". Boston: <i>Harvard Business Review</i>. (Background note, 13 pp)
Session 15	Currency Options (exercises)	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Question 5 and Problems 1, 2 and 3 (pp 320-327) • Conroy, Robert (2008). "Options on Stock Indexes, Currencies and Futures". Boston: <i>Harvard Business Review</i>. (Background note, 17 pp)
Session 16	Interest rate and currency swaps	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 9, pp 328-352 • Chernenko, Sergey and Faulkner, Michael. "The two sides of derivatives usage: Hedging and speculating with interest rate swaps", in <i>Journal of financial and quantitative analysis: JFQA</i>. (June, 2011). (Working paper, 40pp).
Session 17	Interest rate and currency swaps (exercises)	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009,

IES Abroad is compliant with international and US copyright laws. It obtains permission from publishers to reproduce materials in electronic format or in course readers. Please, note that the copyright for this syllabus is retained both by the instructor and IES Abroad Barcelona.

		<p>New York: John Wiley & Sons. Questions 1 & 2 and Problem 3 (pp 350-351)</p> <ul style="list-style-type: none"> • Kester, Carl (2002). "Note on Foreign Currency Swap". Boston: <i>Harvard Business Review</i>. Case study 292043, 11 pp.
Session 18	Guest speaker	<ul style="list-style-type: none"> • Guest speaker Isabel Martínez-Cosentino: Silestone Cosentino, International Finance Practices.
Session 19	Translation exposure	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 10, pp 354-402 • Pantzalis, Christos; Simkins; Betty, J. "Operational hedges and the foreign exchange exposure of U.S Multinational corporations", in <i>Journal of International Business Studies</i>, (December 22, 2001). 11pp.
Session 20	Transaction exposure	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 10, pp354-402 • Hagelin, Nicholas. "Empirical evidence on the incentives to hedge transaction and translation exposure", in the Swedish national debt office and Stockholm University School of Business. (August, 2004). (working paper, 27 pp)
Session 21	Transaction exposure (exercises)	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Questions 1, 2, 3 and 4 and Problems 8, 9, & 10 (pp 394-397) • Dimitrescu, Dalina. "Managing Transaction Exposure". <i>Annales Univesitatis Apulensis Series Oeconomica</i>. (January, 2009). (Working paper, 13 pp)
Session 22	Economic exposure	<ul style="list-style-type: none"> • Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Chapter 11, pp403-448 • Miller, Kent, (2004) "Firm Strategy and Economic Exposure to Foreign Exchange Rate Movements," <i>Purdue CIBER working papers</i>. (Working paper 37pp)

IES Abroad is compliant with international and US copyright laws. It obtains permission from publishers to reproduce materials in electronic format or in course readers. Please, note that the copyright for this syllabus is retained both by the instructor and IES Abroad Barcelona.

Session 23	Economic exposure (exercises)	<ul style="list-style-type: none"> Shapiro, Alan C. (2009) <i>Multinational Financial Management</i> 9th edition, 2009, New York: John Wiley & Sons. Questions 1 & 2 and Problems 8, 9, & 10 (pp 444-447) Lipson, Marc (2009). "Economic Exposure". Boston: <i>Harvard Business Review</i>. (Background note, 10 pp)
Session 24	Course review and final exam review. Final Exam Review Video: "Europe on the Brink" – A WSJ documentary	

Final Exam

REQUIRED READINGS:

- Bekaert, G., and Gray, S., "Target Zones and Exchange rates: An Empirical Investigation," *Journal of International Economics*, 45, 1998, 45 pp.
- Bligh, Christine. "Foreign currency hedging", in *Financial Management*, March 2012. (Background note, 4 pp)
- Chernenko, Sergey and Faulkner, Michael. "The two sides of derivatives usage: Hedging and speculating with interest rate swaps", in *Journal of financial and quantitative analysis: JFQA*. (June, 2011). (Working paper, 40pp).
- Chu, Michael (2012). "Play it Safe at Home, or Take Risk Abroad?" Boston: *Harvard Business Review*. Case study, 4 pp
- Conroy, Robert (2008). "Forwards and Futures". Boston: *Harvard Business Review*. (Background note, 13 pp)
- Conroy, Robert (2008). "Options on Stock Indexes, Currencies and Futures". Boston: *Harvard Business Review*. (Background note, 17 pp)
- Desai, Mihir et al. (2008). "Foreign Exchange Market and Transactions". Boston: Harvard Business Review. (Background note, 28 pp)
- Dimitrescu, Dalina. "Managing Transaction Exposure". *Annales Univesitatis Apulensis Series Oeconomica*. (January, 2009). (Working paper, 13 pp)
- Dominguez, Kathryn, "Central Bank Intervention and Exchange Rate Volatility," *Journal of International Money and Finance*, 17, pp 161-190, 1998.
- Evans, Martin. "Foreign Exchange Market Microstructure", in *Georgetown University and NBER*, May 2005, 14 pp.
- Gould, David and Roy Ruffin, "Trade Deficits: Causes and Consequences," *Econ Review*, Dallas Fed, 4th qt. 1996, 11 pp.
- Greenspan, Alan "Balance of Payments Imbalances", *The Per Jacobsson Foundation*, 2007, 32 pp.
- Hagelin, Nicholas. "Empirical evidence on the incentives to hedge transaction and translation exposure", in the Swedish national debt office and Stockholm University School of Business. (August, 2004). (working paper, 27 pp)
- Kester, Carl (2002). "Note on Foreign Currency Swap". Boston: *Harvard Business Review*. Case study 292043, 11 pp.
- Lipson, Marc (2009). "Economic Exposure". Boston: Harvard Business Review. (Background note, 10 pp)
- Miller, Kent, (2004) "Firm Strategy and Economic Exposure to Foreign Exchange Rate Movements," Purdue CIBER working papers. (Working paper 37pp)
- Moss, David (2007). "Reading a Balance of Payments". Boston: Harvard Business Review. Chapter 6, 32 pp.
- Pantzalis, Christos; Simkins; Betty, J. "Operational hedges and the foreign exchange exposure of U.S Multinational corporations", in *Journal of International Business Studies*, (December 22, 2001). 11pp.
- Sargent, Thomas, "A Primer on Monetary and Physical Policy," *Journal of Banking and Finance*, 23, pp 1463-1482, 1999.
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 1, pp 2-56
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 2, pp 57-98

IES Abroad is compliant with international and US copyright laws. It obtains permission from publishers to reproduce materials in electronic format or in course readers. Please, note that the copyright for this syllabus is retained both by the instructor and IES Abroad Barcelona.

- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Questions 9 & 10 and Problems 1, 2 and 3 (pp 96-97)
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 5, pp 193-225
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Questions 7 & 8 and Problems 1, 2 and 3 (pp 224-225).
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 7, pp 264-291
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Questions 1 & 3 and Problems 9 & 10 (pp 290-291)
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 4, pp 142-192
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 3, pp 99-141
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 8, pp 292-327
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Question 1 and Problems 8,9,& 10 (pp 320-327)
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Question 5 and Problems 1, 2 and 3 (pp 320-327)
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 9, pp 328-352
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Questions 1 & 2 and Problem 3 (pp 350-351)
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 10, pp 354-402
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Questions 1, 2, 3 and 4 and Problems 8, 9, & 10 (pp 394-397)
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Chapter 11, pp403-448
- Shapiro, Alan C. (2009) *Multinational Financial Management* 9th edition, 2009, New York: John Wiley & Sons. Questions 1 & 2 and Problems 8, 9, & 10 (pp 444-447)

RECOMMENDED READINGS:

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

Other sources:

Wall Street Journal, *Financial Times*, *“Expansión”*(Spanish), *“Cinco Días”* (Spanish).