

Course Outline

Department of Accounting and Finance
School of Business and Economics

FNCE 4180-3
International Financial Management (3,0,0)

Calendar Description

Students examine the international aspects of corporate finance and investing. Topics include the international monetary system, balance of payments, the market for foreign exchange, international parity relationships and forecasting foreign exchange rates, international banking and money markets, international bond and equity market, futures and options on foreign exchanges, interest rate and currency swaps, international portfolio investment, and management of exposure.

Educational Objectives/Outcomes

Upon successful completion of this course, the student will be able to:

1. Analyze the operations of international financial markets including past and present exchange rate systems.
2. Clarify the concept of balance of payments and how it helps to forecast exchange rates.
3. Demonstrate the mathematics of exchange rates including the concept of triangular arbitrage.
4. Appraise the international parity conditions and how they are tested empirically.
5. Discuss the roles of multi-national banks in trade financing.
6. Outline the scope of international bond and equity markets and how diversification can be achieved.
7. Compare different hedging techniques and analyze the futures and options markets.
8. Demonstrate how interest rate and currency swaps work and what they achieve for hedgers.
9. Outline the benefits and pitfalls of international portfolio investment and how to invest globally.
10. Explain the exposures of MNCs and non-MNCs in terms of operating, transaction and translation.

Prerequisites

FNCE 3170, FNCE 3180

Co-requisites

None

Texts/Materials

Eun, Resnick & Brean, International Financial Management, 2nd Edition, McGraw Hill, 2008.

Student Evaluation

Tests/Quizzes	30-40%
Case Studies/Research Projects/Assignments	30%
Final Exam	30-40%

Students must pass the final exam to pass the course.

Course Topics

1. International Monetary System

- History and the evolution of exchange rate systems
- Flexible exchange rate regime
- European monetary system
- Fixed versus floating rate regimes

2. Balance of Payments

- Canada's balance of payments
- Current and the capital account
- External balance and the exchange rate

3. Market for Foreign Exchange

- Function and structure of the foreign exchange market
- Determination of exchange rates
- Setting the equilibrium spot exchange rate
- Cross exchange rates and triangular arbitrage

4. International Parity Relationships and Forecasting Foreign Exchange Rates

- Law of one price and the purchasing power parity
- Interest rate parity
- Fisher effect
- Deviations from parity conditions
- Forecasting exchange rates – fundamental and technical approaches

5. International Banking and Money Markets

- Types of international banking offices
- Offshore banking centres
- Capital adequacy standards
- International money markets
- Eurocurrency, Eurocredit and Euronotes
- International financial crises

6. International Bond and Equity Markets

- Foreign and Eurobonds
- Types of instruments
- International bond credit ratings
- Trading in international equities
- Cross listing

7. Futures and Options on Foreign Exchange

- Currency future markets
- Speculating and hedging with currency futures
- Eurodollar interest rate future contracts
- Currency options – hedging and pricing issues

8. Interest Rate and Currency Swaps

- Type and size of the currency swap market
- Swap banks
- Quality spread differentials in an interest rate swap
- Currency swaps and debt services
- Variations of the basic interest rate and currency swaps
- Risks in the swap market

9. International Portfolio Investment

- Optimal international portfolio selection
- International diversification – issues and tactics
- International mutual funds
- Country funds and ADRs
- WEBS, hedge funds and home bias

10. Management Exposure

- Measurement of economic exposure
- Operating exposure – illustration
- Forward and money market hedge
- Cross hedging minor currency exposures
- Hedging contingent exposures
- Methods of translation – current rate and temporal methods
- Hedging translation exposure
- Balance sheet hedges

Methods for Prior Learning Assessment and Recognition

As per TRU policy

Attendance Requirements – Include if different from TRU Policy

As per TRU policy

Special Course Activities – Optional

Use of Technology – Optional