

International Finance
Fudan University

Department: School of Economics

Course Code	ECON130254		
Course Title	International Finance		
Credit	4	Credit Hours	72
Course Nature	<input type="checkbox"/> Specific General Education Courses <input type="checkbox"/> Core Courses <input type="checkbox"/> General Education Elective Courses <input type="checkbox"/> Basic Courses in General Discipline <input type="checkbox"/> Professional Compulsory Courses <input checked="" type="checkbox"/> Professional advanced Courses <input type="checkbox"/> Others		
Course Objectives	<p>After you finish the course, you will be able to:</p> <ul style="list-style-type: none"> ● Understand FX Interbank market from the perspective of economic theory ● Develop knowledge, capability, and skills necessary for making sound financial decisions 		
Course Description	<p>This class provides an introduction to the workings of the foreign exchange markets, the impact of economic policy on exchange rates, the nature of foreign exchange risk, and assessment of the cost of capital for foreign projects. The first part introduces the different elements of the overall FX Interbank market and explores valuation and hedging of risk-free nominal FC cash flows. The second part discusses the determination of exchange rates, monetary policy, and the international links between exchange rates, inflation rates and interest rates. Moreover, the balance of payments is studied and its impact on exchange rates and country risk is considered. The third part examines various concepts of exchange risk and analyzes hedging with forward contracts and foreign currency options. The fourth part considers longer term operational exposures and discusses the need to manage foreign exchange risk in a continually operating international business. Furthermore valuation of foreign investment projects is analyzed. Throughout, a number of cases are examined. The connection of the class material to current events as reported in newspapers and journals is also emphasized.</p>		

Course Requirements:**Prerequisites:**

Microeconomics I

Macroeconomics I

International Economics will also be preferred

Teaching Methods:

Lecture, presentation, group discussion

Instructor's Academic Background:

Dr. Fan obtained her Ph.D. from School of Economics, Fudan University in 2005. She is currently a lecturer in the Economics Department of School of Economics, Fudan University. Her research area is macroeconomics. She teaches macroeconomics, international finance, and mathematical economics and has published papers in academic journals such as *Economic Research* and *World Economy*. She has hosted research projects funded the National Natural Science Foundation and Shanghai Philosophy and Social Sciences. The "Macroeconomics" textbook authored by Dr. Fan and Prof. Yuan Zhigang won the first prize of Excellent Teaching Materials Award of Shanghai Excellent University (2011).

Members of Teaching Team

Name	Gender	Professional Title	Department	Responsibility
Fan Xiaoyan	Female	Lecturer		

Course Schedule**Topic 1: Introduction: Course Overview; FX Spot Market**

- 1.1. Introduction to Institutions of the Foreign Exchange Interbank Market,
- 1.2. Foreign Exchange Spot Transactions
- 1.3. Bid-Ask Quotes
- 1.4. FX Appreciation

Materials

ER (2015 edition), Ch.1, pp. 4-26;

ER, Ch.5, pp. 111-129.

Topic 2: International Money Markets, Hedging Transaction Risk

- 2.1. Foreign Exchange Forward Transactions
- 2.2. Eurocurrency Market; LIBOR
- 2.3. Hedging FX Transaction Exposure
- 2.4. Interest Rate Parity Theorem

Materials

ER (2015 Ed.), Ch. 5-6, pp. 129-145;

ER, Ch. 8, pp. 200-203;

ER, Ch. 11, pp. 272-277.

Hand-In Solutions to Problem Set #1.

Topic 3: Interest Rate Parity, FX Hedging, Currency Futures, Carry Trade

- 3.1. Check Interest Parity with Bid-Ask Spread
- 3.2. Extensions to Interest Rate Parity
- 3.3. Synthetic FX Forward
- 3.4. Hedging Multiple Currencies over Multiple Maturities
- 3.5. Default Risk
- 3.6. FC Futures Contracts
- 3.7. Uncovered Interest Rate Arbitrage
- 3.8. Forward Expectations Parity
- 3.9. FX Carry Trade

Materials

ER (2015 Ed.), Ch. 6, pp.145-149.

ER, Ch.7, pp. 173-180.

Hand-In Solutions to Problem Set #2.

Topic 4: Monetary Policy, Inflation, Interest Rates, Central Bank Policy

- 4.1. Monetary Policy
- 4.2. Short Run Inflation/Unemployment Trade-off Fisher Effect
- 4.3. Money Supply, Inflation and Interest Rates Linkages Real and Nominal Interest Rates
- 4.4. Central Bank Balance Sheet

Materials

Mishkin, Ch. 17;

Fed. Res. Bank of San Francisco, U.S. Monetary Policy

ER (2015 Ed.), Ch. 6, Fisher Effects, pp. 156-158.

Hand-In Solutions to Problem Set #3.

Topic 5: Short-Term FX Determination, FX Intervention, Balance of Payments

- 5.1. FX Flow Market Model
- 5.2. Monetary Policy and Foreign Exchange Rates
- 5.3. Fed Balance Sheet
- 5.4. Balance of Payments,

Materials

ER (2015 Ed.) Ch. 2, pp. 27-48 and 56-61;
ER, Ch. 3, pp. 62-71;
ER, Ch.6, pp. 158-172;

Hand-In Solutions to Problem Set #4

Topic 6: Parity Conditions, Capital Flows, Currency & Debt Crises

- 6.1. National Income Accounting
- 6.2. Linking Internal and External Deficits
- 6.3. Capital Flows
- 6.4. International Investment Position
- 6.5. Currency Crises
- 6.6. Sovereign Debt Crises Purchasing Power Parity
- 6.7. International Parity Conditions
- 6.8. Real Exchange Rates

Materials

ER (2015 Ed.), Ch. 2, pp. 49-60;
ER, Ch. 3, pp. 72-81;
ER, Ch. 6, pp. 149-172

Hand-In Solutions to Problem Set #5

Midterm Exam

Topic 7: FX Derivatives and Hedging of Transaction Exposure

- 7.1. Measuring FX Volatility
- 7.2. Hedging FX Quantity Risk
- 7.3. Foreign Currency Options

Materials

ER (2015 Ed.), Ch. 7, pp. 181-189.

ER, Ch. 8, pp. 198-217.

Topic 8: Types of FX Exposure, Hedging Applications

8.1. Dozier Case

8.2. Pricing and Applications

8.3. Illustrations: Zenith and Lufthansa. Foreign Currency Options Hedge Examples

Materials

Case: Dozier Inc.

Hand-In Solutions to Problem Set #6

Topic 9: International Capital Budgeting and Valuation;

9.1. Introduction to FC Cost-of-Capital

9.2. Valuation of Foreign Projects

9.3. FX Operating Exposure

9.4. Accounting for Political Risk

Materials

ER (2015 Ed.), Ch. 17-18, pp. 431-475;

Salomon Smith Barney: Practical Approach to International Valuation

Hand-In Solutions to Problem Set #7.

Topic 10: Valuation Review; Operating Exposure Hedging; Course Review

10.1. International Valuation Case

10.2. Hedging FX Operating Exposure

10.3. Types of FX Exposures

10.4. FX Hedging Philosophy

10.5. Hedging Summary

Materials

Case: Acquiring Nusantara Communications Inc.

ER (2015 Ed.), Ch. 9, pp. 225-244.

Hand-In Solutions to Problem Set #8

Final Exam

Note: I expect you to do the readings in advance of the class for which they are assigned. The format of the class is lectures and extensive discussion. To facilitate

this practice it is helpful if you bring your name plates.

The design of class discussion or exercise, practice, experience and so on:

If you have special needs because of a learning problem or other condition that requires special arrangements for tests or meeting assignments, please let me know as soon as possible.

The student is responsible for their own academic misconducts. Cases of suspected misconduct will be referred to the Dean's Office; in addition, acts of plagiarism or cheating will be penalized with failing grades, or even more seriously, be expelled from school.

I encourage students to attend my tutorial hours to discuss questions either on class material, problems on exams or related subject matter. This class requires a lot of work. Please, speak with me if you are having difficulties meeting the requirements for this course. Together we will work out a solution.

If you need a TA, please indicate the assignment of assistant:

Yes, a TA is needed and will help the lecturer with the attendency, organization of group discussion.

Grading & Evaluation:

Class Performance: 10%
Problem Set: 20%
Midterm Exam: 20%
Final Exam: 50%

Passing grade: 60, below 60 = fail

Teaching Materials & References :

Eun, C.S. and B.G. Resnick, International Financial Management, 7th Edition, McGraw-Hill, 2015 (or higher edition)

Supplementary notes, problems and readings will be posted on the elearning website.

