IBUS6301

International Business Finance
School of Business, The George Washington University

Professor:  Jiawen Yang, Ph.D.
Professor of International Business and International Affairs
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Course Description:
This course covers the international financial environment within which firms and financial institutions operate, and discusses theories and practices of international financial management. Students will learn the fundamental concepts of the international monetary system and exchange rate determination through balance of payments flows and international parity conditions. Major hedging techniques are introduced so as to help students develop key skills and strategies in managing exposures to exchange rate risk. In addition, the course addresses the international financial markets and international financial / investment strategies. The objective of this course is to enhance the ability of business leaders to evaluate the international financial environment and to formulate and implement strategies in international financial operation. The course is conducted on Blackboard through videos, teaching notes, assignments/exercises, discussions, and case analyses.

Course Objectives:
• To understand the international financial environment through analysis of the balance of payments and exchange rate regimes;
• To understand the fundamental theories of exchange rate determination;
• To understand interest rate parity and how it works in the foreign exchange market;
• To understand purchasing power parity and other international parity conditions and how they apply to multinational business strategies;
• To understand fundamental hedging techniques to manage foreign exchange exposure in international transactions;
• To understand the operating exposure of multinational firms and how to manage operating exposure;
• To learn the basics of international money and capital markets and understand and manage interest rate exposure
• To understand the international portfolio theory and the benefits of international diversification;
• To evaluate international investment and financing strategies.
Required Readings:

Course material posted on Blackboard, including videos, teaching notes, practice problem sets and PowerPoint slides (PPTs). See Resources and Recommendations on Blackboard (in “Session 1” folder) for more details.


Other materials: Selected articles from academic and business journals and other publications will be added as required readings as the course is in session.

Assignments, Tests, and Grading:

This course builds upon a background in economics, finance, financial accounting, and international business. It requires basic math skills in arithmetic, algebra, and geometry, as well as an ability to manipulate data, read graphs, and pay attention to details.

Students’ performance in the course is evaluated as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homework assignments</td>
<td>60</td>
</tr>
<tr>
<td>Final exam</td>
<td>30</td>
</tr>
<tr>
<td>Participation</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
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Blackboard. The entire course is carried out through Blackboard. In addition to the course material (videos, teaching notes, practice problem sets and answers, homework assignments and answers, and the final exam), we also use Blackboard for course administration, communication, and interactions. Students are expected to access Blackboard on a regular basis (at least twice a week, once at the beginning of the week and another time in the middle of the week) while the course is in session for updates of course material, announcements, and other course related information, and for interaction with the professor and fellow classmates.

Schedules and deadlines. Specific schedules and due times of the assignments and the final exam are posted separately on Blackboard (See “Syllabus/Schedules” on Blackboard). Students are required to strictly follow the schedules and due times (It is important that students set up calendars to remind themselves of the due times for the assignments and the final exam). It is highly recommended that students plan to complete assignments and the exam ahead of the due times to avoid any late hour emergencies and computer/internet breakdowns.

Weekly homework assignments: There will be 14 weekly homework assignments. Students are required to complete these assignments on Blackboard (see “Assignments” folder). No other form of submission is accepted. Students may take one or two attempts for each assignment. If two attempts are taken, the score for the assignment will be the average of these two. Students are required to complete and submit these assignments on Blackboard by the designated deadlines. No late submission is accepted, as answers to the homework assignment is made available on Blackboard immediately upon the deadline.

No makeup assignments will be allowed. Instead, 12 of the 14 weekly homework assignments will
count toward the final course grade. That is, if you miss one or two assignments (due to unforeseen circumstances such as health, family or work-related emergencies, local utility breakdowns, or other events), your scores for these assignments (virtually zero) are dropped without affecting your course grade. If you complete all 14 assignments, the two assignments with the lowest scores are automatically dropped. The resulting 12 assignments will have an equal weight of 5 points each.

**Final exam:** The final exam covers materials contained in the teaching notes, PowerPoint presentations, the practice problem sets, the required textbook chapters, and other required readings. The final exam covers the entire course. Although the exam is open-book, there is a time constraint for completion. Late submission is subject to a one-time penalty of 25% of the exam grade. Students are recommended to prepare notes for reference during the exams. Such notes may help organize your thoughts, identify weaknesses in your preparation, and strengthen your understanding of the key concepts. More instructions and recommendations for preparation for the final exam will be available on Blackboard before the exam.

**The Q&A board.** Students are encouraged to post their course content-related questions to this board instead of sending emails to the professor. Answers will be provided on the same board. Questions through emails to the professor may be posted and answered on this board as well so that we learn from each other’s questions. Students are encouraged to visit this board regularly and post answers to fellow classmates’ questions.

**Live Sessions.** There will be bi-weekly collaborative or synchronous sessions for the course. Specific schedules will be announced on Blackboard (see “Live Sessions” folder). Such sessions provide an opportunity of interaction among students and the professor. Students are encouraged to attend such sessions, although attendance is not required. The sessions will be recorded and made available on Blackboard.

**Participation.** Students are expected to follow the course progress and remain active while the course is in session. Participation is measured on timely completion of assignments and the final exam, and fulfillment of other course work requirement as deemed necessary by the professor.

**Disability Services:**
Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: http://gwired.gwu.edu/dss/.

**Academic Integrity:**
Conduct and all work in this course must be in accordance with the GW Code of Academic Integrity. Academic dishonesty is defined as cheating of any kind, including misrepresenting one’s own work, taking credit for the work of others and the fabrication of information. Any assignment including plagiarized content will receive zero points. Please visit the following website for more information: http://www.gwu.edu/~ntegrity/code.html.
Session Outlines and Reading Assignments

Session 1  The Global Economy and International Finance

Topics:
- International economic linkages
- International business transactions
- International financing and investment
- International financial markets
- Financial management: International challenges
- Financial management: International opportunities

Required readings:
- Jiawen Yang, *The Global Economy and International Finance*, teaching note
  Text: ESM, Chapters 1 and 2

References and supplemental readings:

Session 2  The Balance of Payments

Topics:
- Balance of payments: definition, structure, and presentation
- The current account balance and the national economy
- The current account balance and net international investment positions
- The financial account balance
- The overall balance and international reserves
- Case analysis: U.S. current account deficit

Required readings:
- Jiawen Yang, *The Balance of Payments*, teaching note
  Text: ESM, Chapter 4

References and supplemental readings:

Session 3  Exchange Rate Regimes

Topics:
- The international monetary system
- Exchange rate regimes: historical perspectives
- The current exchange rate regimes
- Fixed versus flexible exchange rate regimes
- The impossible trinity
Required readings:
  Jiawen Yang, *Exchange Rate Regimes*, teaching note
  Text: ESM, Chapter 3

References and supplemental readings:

Session 4  Monetary Policies and the Global Financial Environment

Topics:
  The flow model of exchange rate determination
  International reserves and money supply
  Money supply sterilization
  International transmission of monetary policy
  Financial crises and currency fluctuations
  Case analysis: Quantitative easing (QE)

Required readings:
  Jiawen Yang, *Financial Crises and Currency Fluctuations*, teaching note
  Text: ESM, Chapter 5

References and supplemental readings:

Session 5  The Foreign Exchange Market

Topics:
  The foreign exchange market: an overview
  Exchange rates and quotations
  Cross rates and arbitrage
  Spot rates and forward rates
  Foreign exchange exposure
  Money market and forward hedging strategies

Required readings:
  Text: ESM, Chapter 6

References and supplemental readings:
  Text: ESM, Chapter 10
  http://www.ny.frb.org/education/addpub/usfxm/.
Session 6. Interest Rate Parity and Applications

Topics:
- Interest rate parity
- International Fisher effect
- The forward rate as an unbiased predictor of the future spot rate
- Interest rate parity and international financing
- Interest rate parity and international investment
- Case analysis: Currency carry trade

Required readings:
- Jiawen Yang, *Interest Rate Parity*, teaching note
- Text: ESM, Chapter 7

References and supplemental readings:
- Text: ESM, Chapters 13, 14, and 16

Session 7. Purchasing Power Parity (PPP) and Applications

Topics:
- Different versions of PPP
- Real interest rate parity
- Real exchange rate and international price competitiveness
- Exchange rate pass-through and pricing strategies
- PPP and international investment analysis
- Case analysis: Currency issues in emerging markets

Required readings:
- Jiawen Yang, *Purchasing Power Parity*, teaching note
- Text: ESM, Chapters 7 and 9

References and supplemental readings:
- Text: ESM, Chapters 12, 17, and 18
- The Economist's Big Mac index, various issues.

Session 8. Currency Futures and Options

Topics:
- Currency futures
- Difference between currency futures and forwards
- Application of currency futures
- Currency options
- Application of currency options

Required readings:
- Jiawen Yang, *Currency Futures and Options*, teaching note
- Text: ESM, Chapter 8
References and supplemental readings:
Chicago Mercantile Exchange, contract specifications of currency futures and options,

Session 9  Transaction Exposure and Management
Topics:
Different types of foreign exchange exposure
Transaction exposure in international transactions
Hedging transaction exposure
Hedging transaction exposure with financial contracts
Natural hedge
Case analysis
Required readings:
Jiawen Yang, *Transaction Exposure and Management*, teaching note
Text: ESM, Chapter 10

Session 10  Operating Exposure and Management
Topics:
Operating exposure in international operations
Measuring operating exposure
Operating exposure management
International pricing strategies
Case analysis
Required readings:
Jiawen Yang, *Operating Exposure and Management*, teaching note
Text: ESM, Chapter 12

Session 11  International Money Market and Interest Rate Risk Management
Topics:
Differences between onshore and offshore money markets
The Eurocurrency market and Eurodollar
Interest rate risk
Managing interest rate risk
Forward rate agreements (FRAs)
Eurodollar futures
Eurodollar futures options
Interest rate and currency swaps
Required readings:
Jiawen Yang, *International Money Market and Interest Rate Risk Management*, teaching note
Text: ESM, Chapters 1 and 8

References and supplemental readings:
Chicago Mercantile Exchange, contract specifications of Eurodollar futures and options,
Financial Times, Market Data, data archive for interest rate swaps.
http://markets.ft.com/research/markets/overview
Session 12  International Capital Markets

Topics:
- Global financing and cost of capital
- International equity financing
- American deposit receipts (ADRs)
- Raising debt globally
- Bank loans and syndicated credits
- Euronote and Eurobond markets
- Foreign bond markets

Required readings:
- Jiawen Yang, *International Capital Markets*, teaching note
- Text: ESM, Chapters 13 and 14

Session 13  International Diversification

Topics:
- The benefits of international investment for investors and for recipients
- Financial versus direct investment
- International financial capital flows and risks to recipients
- International portfolio theory
- International portfolio risk and return
- Measures of asset performance across markets

Required readings:
- Jiawen Yang, *International Diversification*, teaching note
- Text: ESM, Chapter 16

Session 14  Foreign Direct Investment and Capital Budgeting

Topics:
- Foreign direct investment (FDI)
- Complexities in the foreign environment
- Multinational capital budgeting
- Net present value (NPV) analysis
- Case study: Multinational capital budgeting

Required readings:
- Jiawen Yang, *International Diversification*, teaching note
- Text: ESM, Chapters 17 and 18

Final exam