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>40</td>
</tr>
<tr>
<td>Total</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 exams). 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 “Homework 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 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 more than 12 assignments, the 12 assignments with the highest scores will enter the final grade calculation with an equal weight of 5 points each.

**The final exam**: The final exam covers the entire course. It covers materials contained in the teaching notes, PowerPoint presentations, weekly practice problem sets (and answers), weekly homework assignments (and answers), Live Session presentations, case presentations, the required textbook chapters, and other required readings.

There is a time limit for the final exam. **Late submission is subject to a one-time penalty of 25% of the exam grade.** The exam allows one attempt to complete. Makeup for the exam is only allowed for health and family emergencies (proofs required).

The exam is open-book. Students are recommended to prepare notes (cheat sheets) for reference during the exam. Such notes may help organize your thoughts, identify weaknesses in your preparation, and strengthen your understanding of the key concepts.

**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 for questions and interaction among students and with the professor. The sessions will be recorded and made available on Blackboard. Attendance to these sessions is strongly encouraged, but not mandatory. If you miss a session, make sure you review the recorded session to make up. **Contents in the live-session presentations may be included in the homework assignments or the exams.**

**Real World Events.** There will be a **Real World Events** section on Blackboard. Links to media coverage of course-related real world events and other references are posted in weekly folders. Visit to this section is voluntary. However, you are encouraged to browse these links and relate what we learn in the course to what is going on in the real business world. The folders may include references to past events as well as to current events. Contents in this folder are not tested in the homework assignments or exams unless they are included in the required course material.

**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. Please visit the following website for more information: [http://www.gwu.edu/~ntegrity/code.html](http://www.gwu.edu/~ntegrity/code.html).
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/.
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:
  - Jeffrey R. Bogen, Mai-Chi Hoang, Kristy L. Howell, and Eriun M. Whiteabker,
    “Comprehensive Restructuring and Annual Revision of the U.S. International

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:
  - Cletus C. Coughlin, Michael R. Pakko and William Poole, “How Dangerous Is the U.S.
    Current Account Deficit?” *The Regional Economist*, Federal Reserve Bank of St. Louis,
    April 2006, pp. 5-9.
    223, January 2007. [http://www.bis.org/publ/work223.htm](http://www.bis.org/publ/work223.htm).

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:
   The Federal Reserve Board, Current and historical exchange rates.
   http://www.federalreserve.gov/
   International Monetary Fund (IMF), *Special Drawing Rights (SDRs)*,

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:
   Barry Eichengreen, “Does the Federal Reserve Care about the Rest of the World,”

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
   The Federal Reserve Board, Current and historical exchange rates.
   http://www.federalreserve.gov/
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:

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

References and supplemental readings:
- Search for reports on how the appreciation of the U.S. dollar in 2015 affects U.S. exports from major business media.

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

References and supplemental readings:
- Search for reports on how strong U.S. dollar hurts U.S. company earnings from major business media.
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:

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

References and supplemental readings:
- Search for reports on how changes or expected changes in the federal funds rate affect international capital flows and the global financial markets from major business media.

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
References and supplemental readings:


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, *Foreign Direct Investment and Capital Budgeting*, teaching note
- Text: ESM, Chapters 17 and 18

References and supplemental readings:


Final exam