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.
**Expected Hours of Work for the Course:**
Over 15 weeks, students will spend 3 hours (150 minutes) per week in lectures and in-class discussions. Required readings and homework assignments are expected to take up, on average, 7 hours (350 minutes) per week. Over the course of the semester, students will spend 42 hours in instructional time and 98 hours preparing for class.

**Required Readings:**
- **Course material** posted on Blackboard, including videos, teaching notes, practice problem sets and PowerPoint slides (PPT's). 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 may be added as required readings as the course is in session. Students are expected to read *The Wall Street Journal* or other major economics/finance journals on a regular basis.

**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>Assignment</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>
</tr>
</tbody>
</table>

**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.

Real World. There will be a Real World section on Blackboard. Links to media coverage of course-related real world events and other references are posted in weekly folders. The folders may include references to past events as well as to current events. Visit to this section is voluntary. Contents in this folder are not tested in the homework assignments or exams unless they are included in the required course material. 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.
Academic Integrity and University Policies

Academic Integrity:
The code of academic integrity applies to all courses in the George Washington School of Business. Please become familiar with the code. All students are expected to maintain the highest level of academic integrity throughout the course of the semester. Please note that acts of academic dishonesty during the course will be prosecuted and harsh penalties may be sought for such acts. Students are responsible for knowing what acts constitute academic dishonesty. The code may be found at: http://www.gwu.edu/~ntegrity/code.html.

Religious Accommodation:
Students should notify faculty during the first week of the semester of their intention to be absent from class on their day(s) of religious observance.

Faculty should extend to these students the courtesy of absence without penalty on such occasions, including permission to make up examinations. Faculty who intend to observe a religious holiday should arrange at the beginning of the semester to reschedule missed classes or to make other provisions for their course-related activities.

Disability Support Services (DSS):
Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office at 202-994-8250 in the Rome Hall, Suite 102, to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: gwired.gwu.edu/dss/.

Mental Health Services 202-994-5300:
The University's Mental Health Services offers 24/7 assistance and referral to address students' personal, social, career, and study skills problems. Services for students include: crisis and emergency mental health consultations confidential assessment, counseling services (individual and small group), and referrals. counselingcenter.gwu.edu/
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 4

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 3

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 2
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:

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 5

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 6
References and supplemental readings:

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 6 and 9
References and supplemental readings:
    Text: ESM, Chapter 12
    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 7
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
References and supplemental readings:
Search for reports on how the appreciation of the U.S. dollar in 2015 and 2016 affected 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, Chapters 11 and 12
References and supplemental readings:
Search for reports on how U.S. dollar fluctuations affect 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
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, Chapters 13 and 14

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
EMERGENCY PREPAREDNESS INFORMATION – SYLLABUS INSERT

Instructor:_____
Course:_____
Building/Room #:_____

EMERGENCY NUMBERS
Foggy Bottom (GWPD)................. 202-994-6111
Mount Vernon (GWPD)................. 202-242-6111
VSTC (Loudoun County).................. 911
Other Locations.......................... 911

NON-EMERGENCY NUMBERS
Foggy Bottom (GWPD).................. 202-994-6110
Mount Vernon (GWPD)............... 202-242-6110
GW Information Line.................. 202-994-5050
VSTC Information Line............. 571-553-8333

Fire
☐ Pull fire alarm
☐ Leave building immediately using closest emergency exit, closing doors behind you
☐ Call GWPD (202-994-6111) or 911 when safe to do so
☐ Assemble in a designated area
☐ Re-enter building only when instructed by emergency officials
  • Do not assume an alarm is false
  • USE STAIRS, do not use elevators
  • If unable to exit building, go to nearest exit stairwell or safe area of refuge and call GWPD (202-994-6111) or 911 to report your location
  • If trained, use a fire extinguisher if fire is small and contained and room is not fill with smoke

Two emergency exits are located:______ ______
Primary meeting area (near):______
Secondary meeting area (far):______

Severe Weather
Thunderstorms are most common type of severe weather in Washington, DC metropolitan area. However, winter storms, extreme hot/cold temperatures, flooding, tornadoes and hurricanes can occur. Check CampusAdvisories.gwu.edu for up-to-date weather advisories and information.

  Shelter-in-place for severe weather events:
  ☐ Seek shelter indoors in a low part of building
  ☐ Move to a windowless interior room away from hazardous materials
  ☐ Take cover under a sturdy object or against an interior wall
  ☐ Monitor Campus Advisories and local media
  ☐ Wait for all clear before leaving your safe space

Violence/Active Shooter
If an active shooter is in your vicinity, call GWPD (202-994-6111) or 911 when it is safe to do so and provide information, including the location and number of shooter(s), description of shooter(s), weapons used and number of potential victims.

  Evacuate: If there is an accessible escape path, attempt to evacuate the premises
  • Have an escape route and plan in mind; leave your belongings behind; follow instructions of police officers

  Hide Out: If evacuation is not possible, find a place to hide where the active shooter is less likely to find you
  • Hide in an area out of the shooter’s view; provide protection; lock the doors; block entry to your hiding place;
  • silence your phone; wait for law enforcement

  Take Action: As a last resort and only when your life is in imminent danger, attempt to disrupt and/or incapacitate the shooter by:
  • Acting as aggressively as possible against him/her; yelling; throwing items and improvising weapons; and commit to your actions

Emergency Communications
CampusAdvisories.gwu.edu: GW’s primary website for incident-related information (including class cancellations).

GW Alert: Notification system that sends emergency alerts to email addresses and mobile devices. Students, faculty and staff are requested to maintain current contact information and campus location information by logging into GWeb Information System (banweb.gwu.edu). In emergency situations, alerts may also appear at the top of university webpages.

GW PAL (Personal Alarm Locator): Download this app to your iOS or Android smartphone. This mobile safety app allows users to quickly communicate with GWPD (when on campus) or 911 (when off campus); users can send crime tips to GWPD; app also has a flashlight feature and dial list for local taxi companies. More information go to safety.gwu.edu