



Business

IBUS6301

International Business Finance

School of Business, The George Washington University

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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:

At the completion of this course, you should be able to:

- Analyze the balance of payments and exchange rate regimes and their relationship to the international financial environment.
- Discuss the fundamental theories of exchange rate determination.
- Explain interest rate parity and how it works in the foreign exchange market.
- Explain how purchasing power parity and other international parity conditions apply to multinational business strategies.
- Apply fundamental hedging techniques to manage foreign exchange exposure in international transactions.
- Develop a strategy to manage the operating exposure of a multinational firm.
- Explain how international money and capital markets influence interest rate exposure.
- Apply international portfolio theory to an argument supporting the benefits of international diversification.
- Judge the effectiveness of financial strategies on international investment.

Expected Hours of Work for the Course:

Over 15 weeks, students will spend 2 hours (100 minutes) per week in lectures and discussions (including recorded video sessions and synchronous sessions). 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 25 hours in instructional time and 87.5 hours preparing for class.

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.

Textbook: David K. Eiteman, Arthur I. Stonehill, Michael H. Moffett (Referred to as ESM in reading assignments), *Multinational Business Finance*, 14th edition, Prentice Hall, 2016.

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:

Homework assignments	60 points
<u>Final exam</u>	<u>40 points</u>
Total	100 points

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 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.

Live Sessions. There will be weekly synchronous sessions for the course. Specific schedules are posted on Blackboard (see “Live Sessions” folder). Such sessions provide an opportunity for highlights of the course material and questions/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.**

The Q&A / Discussion 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 may also post answers to fellow classmates’ questions.

Real World (Readings). Links to media coverage of real world events and other references are posted in folders of course-related topics. 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.

Clarifications. If the information in this syllabus is not clear to you, please contact the professor for clarifications.

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:

- Jeffrey R. Bogen, Mai-Chi Hoang, Kristy L. Howell, and Eriun M. Whiteabker, "Comprehensive Restructuring and Annual Revision of the U.S. International Transactions Accounts." *Survey of Current Business*, July 2014.

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:

- Laura Alfaro and Rafael Di Tella, "The U.S. Current Account Deficit," *Harvard Business School case: 9-706-002*, August 2017.
- 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.

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)*,

<http://www.imf.org/external/np/exr/facts/sdr.htm>

Session 4 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:

Jiawen Yang, *The Foreign Exchange Market*, teaching note.

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/>.

Bank for International Settlement, *Triennial Central Bank Survey of Foreign Exchange Turnover in*

April 2016, <http://www.bis.org/publ/rpfx16fx.pdf>

Session 5 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:

Jeffrey Frankel, "Getting Carried Away: How the Carry Trade and Its Potential Unwinding Can Explain Movements in International Financial Markets."

<http://www.hks.harvard.edu/fs/jfrankel/CarryTradeNov19-2007.pdf> (Accessed January 5, 2018)

Session 6 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.
- Jiawen Yang, "Nontradables and the valuation of RMB—An Evaluation of the Big Mac index," *China Economic Review*, July 2004, 15(3), pp. 353-9.
- Jiawen Yang, "Exchange Rate Pass-Through in U.S. Manufacturing Industries," *The Review of Economics and Statistics*, 79:1 (February 1997): 95-104.

Session 7 International Financial Environment: Issues and Case Analysis

Topics:

- Monetary policies and international transmissions
- Foreign exchange market intervention
- Financial and currency crises
- Political and economic shocks and exchange rates
- International transmission of monetary policy
- Quantitative easing (QE)

Required readings:

- Jiawen Yang, *The Global Financial Environment*, teaching note

References and supplemental readings:

- Ben S. Bernanke, "A Century of US Central Banking: Goals, Frameworks, Accountability," *Journal of Economic Perspectives*, 27(4)(fall 2013): 3-16.
- Barry Eichengreen, "Does the Federal Reserve Care about the Rest of the World," *Journal of Economic Perspectives*, 27(4)(fall 2013): 87-104.
- Daniel Thornton, "Requiem for QE," *Policy Analysis* No. 783, November 17, 2015.

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,
<http://www.cmegroup.com/>.

The Wall Street Journal, Currency War: U.S. Hedge Funds Mount New Attacks on China's Yuan, Jan. 31, 2016. <http://www.wsj.com/articles/currency-war-u-s-hedge-funds-mount-new-attacks-on-chinas-yuan-1454236202>.

Session 9 Transaction Exposure and Management

Topics:

Different types of foreign exchange exposure
Translation 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, Chapters 10 and 11

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 and management
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, Chapter 8

References and supplemental readings:

Chicago Mercantile Exchange, contract specifications of Eurodollar futures and options,
<http://www.cmegroup.com/>.

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 Investment

Topics:

International portfolio theory
Measures of asset performance across markets
Foreign direct investment (FDI)
Complexities in the foreign environment
Multinational capital budgeting
Net present value (NPV) analysis

Required readings:

Jiawen Yang, *International Diversification*, teaching note
Jiawen Yang, *Foreign Direct Investment and Capital Budgeting*, teaching note
Text: ESM, Chapters 13 and 14

References and supplemental readings:

Yang, Jiawen, "Direct and Financial Foreign Investment: How Do They Differ in benefits to Developing Countries?" in Ann Marie Bissessar, ed., *Policy Transfer, New Public Management and Globalization: Mexico and the Caribbean*, New York: University Press of America, 2002, 167-92.

Arias, Maria A. and Paulina Restrepo-Echavarría, "Sovereign Debt Crisis in Europe Recalls the Lost Decade in Latin America," *The Regional Economist*, January 2015, 8-9.

Session 14 International Financial Management: Issues and Case Analyses

Topics:

Issues in international financial management
Distinction between international financial investment and direct investment
Different perspectives of investors and recipients in international investment
International taxation
Real world events in international financial management
Case analyses of current events in international financial management
Course review

Required readings:

Jiawen Yang, *International Financial Management: Issues and Case Analysis*, teaching note
Text: *ESM*, Chapters 17 and 18

References and supplemental readings:

The Wall Street Journal, "Europe-China Deals Get More U.S. Scrutiny," by SHAYNDI RAICE, Jan. 24, 2016. <http://www.wsj.com/articles/europe-china-deals-get-more-u-s-scrutiny-1453680070>.

The Wall Street Journal, India Said to Pick Japan for High-Speed Rail Project , Dec. 10, 2015. <http://www.wsj.com/articles/indian-cabinet-agrees-to-pick-japan-for-high-speed-rail-project-1449744059>.

Yang, Jiawen, "The Individual Sizes of Foreign Investment in China: An Industrial Organization Approach," in C. Jayachandran and Guijun Lin eds., *International Business with China: Opportunities and Challenges*, University of International Business and Economics, China, 1997.

Yang, Jiawen, "Ethnic Network and the Size of Inward/Outward Investment: The Case of Taiwan," in Jerry Biberman and Abbass Alkhafaji, eds., *Business Research Yearbook Volume IV*, Slippery Rock, PA: International Academy of Business Disciplines, 1997, pp. 439-43.

Zaheer, Srilata, "Overcoming the Liability of Foreignness," *Academy of Management Journal*, 1995, Vol. 38, No. 2, 341-363.

Final exam