

LEHIGH UNIVERSITY
College of Business and Economics
PERELLA DEPARTMENT OF FINANCE

GBUS 473 – International Finance

Fall 2011

Time: Section 10 6:10 – 9:00pm W
Classroom: RBC 141
Instructor: Prof. Geraldo M. Vasconcellos
Office: Rauch 331
Telephone: 610-758-5347
Email: gmv0@lehigh.edu
Office Hours: 2:30 – 3:30 pm, M/W/F
4:00- 5:00 pm, W
Otherwise by appointment

ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES

If you have a disability for which you are or may be requesting accommodations, please contact both your instructor and the Office of Academic Support Services, University Center C212 (610-758-4152) as early as possible in the semester. You must have documentation from the Academic Support Services office before accommodations can be granted.

COURSE OBJECTIVES

The overall objectives of this course are to study the fundamentals of international finance, to discuss international financial markets and institutions, and to analyze foreign portfolio investment as well as foreign direct investment decisions. The course also encompasses an experiential activity, which consists of working as a country analyst for an international securities portfolio. More specific objectives are as follows:

1. To investigate the process of economic globalization since the second half of the 20th century. Globalization is defined as the increased integration in the markets for goods, services and assets, as well as in the labor market.
2. To study exchange rate regimes, both from a historical and a contemporary viewpoint, as well as cooperative arrangements and currency areas, especially the European Monetary Union (the eurozone).
3. To investigate the international parity conditions involving exchange rates, interest rates, and inflation.
4. To analyze the instruments traded and financial institutions active in the foreign exchange markets, the international money markets, and the international capital markets.
5. To analyze the financial decision making of international portfolio investors and multinational firms, including foreign exchange risk management.
6. To work as a country analyst for the Thompson International Portfolio. Duties include the development of market analysis and measurement of past performance, as well as projections and recommendations for investment decisions.

TEXT AND READINGS

The textbook for this course is International Financial Management, by Geert Bekaert and Robert J. Hodrick, Pearson Prentice Hall, 2009. In addition to the textbook chapters and questions/problems at the end of the chapters, I will assign several readings during the term related to current issues in international investments, multinational business finance, and international financial markets.

As a student of Finance, you must keep abreast of recent developments. At a minimum, you need a daily source of financial information. Accordingly, a financial newspaper, such as The Wall Street Journal or the Financial Times, is required reading for this course. You can also find in-depth analysis, including comprehensive surveys of major topics from time to time, in The Economist, published weekly.

GRADING SYSTEM

The grades for this course will be based on two midterm examinations and a term project, required assignments, as well as attendance and class participation. The dates for the examinations are as follows:

| | |
|-------------------------------|-------------------------|
| 1 st Midterm Exam: | Wednesday, September 28 |
| 2 nd Midterm Exam: | Wednesday, October 26 |
| 3 rd Midterm Exam: | Wednesday, November 16 |

The table below shows the percentages of the overall grade which are accounted for by the different graded assignments. Please note that attendance is required in this course. I will call attendance in most meetings in order to enforce this requirement.

| <u>Assignment</u> | <u>Percentage of final grade</u> |
|------------------------------|----------------------------------|
| 1 st Midterm Exam | 20% |
| 2 nd Midterm Exam | 20% |
| 3 rd Midterm Exam | 20% |
| Term Project | 30% |
| Homework | 5% |
| Attendance and participation | <u>5%</u> |
| | 100% |

THE THOMPSON INTERNATIONAL PORTFOLIO

The Thompson International portfolio (hereafter TIP) is an integral part of this course. The portfolio is managed by students; I function as a faculty advisor and trustee. Each student in this class will be a country analyst and will cover a country that is either part of the portfolio or a prospect for inclusion.

The portfolio is organized in three units: a Global Allocation Group, a Mature Markets Group and an Emerging Markets Group. For a comprehensive view of the portfolio, visit the web site at www.lehigh.edu/~intip/. The term project consists of an analyst's report and recommendation (please see Appendix A for the Market Report Guidelines). The research in the report will focus on the market as a whole; however, a discussion of specific industries and major companies (which are part of market indexes) will frequently be necessary for completeness. Analysts will work in pairs. The next round of investment decisions will use the input from this research, i.e., its conclusions and recommendations.

The due date for this project is Wednesday, December 7 (last class). Your project must have a professional presentation. You are encouraged to consult reports from financial institutions such as Goldman Sachs, Morgan Stanley, or JPMorgan Chase to develop ideas for items to include in your project. Appendix A contains guidelines for the term project, as mentioned above.

DAY-TO-DAY MATTERS

A typical class meeting will have a lecture-discussion format. We will cover material from the textbook, discuss assigned readings, and address some end-of-chapter questions and/or problems assigned for homework, as well as devote a sizable amount of time to a free-form discussion of current events pertaining to or affecting multinational corporations, international investments, and the international financial markets (see Appendix B for a list of www sites of interest). In addition, I will frequently ask the analysts to make brief oral presentations concerning the current status of their research.

Your participation in the class discussion is very important for the success of the course. Your questions are always welcome, including questions about current events which are relevant for the course but not necessarily related to the topic of a particular class. If I have a meaningful comment to offer on the spot, I will offer it; if not, I will look into the issue and get back to it in the next meeting.

TOPICS AND ASSIGNMENTS

The assignment of a chapter or chapters from the textbook includes not only reading the body of the chapter, but also attempting to answer the questions and/or solve the problems at the end of the chapter. Please note that this work is not limited to the questions and/or problems assigned as homework.

You will find out that not all the material in the chapters assigned will be covered in class. That is by design; I intend to use the time in class to discuss the fundamental concepts. You are still responsible for all the material in the chapter. I am available to discuss your questions in my office hours or by appointment.

COURSE OUTLINE

Note: BH refers to the names of the textbook authors, i.e., Bekaert and Hodrick

1) Foundations of International Finance

- a. Globalization and the Multinational Firm
- BH, Chapter 1.
- b. The International Monetary System
- BH, Chapter 5.
- c. The Balance of Payments
- BH, Chapter 4.

2. The Foreign Exchange Markets and Currency Derivatives

- a. Spot and Forward Markets
- BH, Chapter 2, 3.
- b. Foreign Exchange Futures and Options
- BH, Chapter 20.

3. International Parity Conditions and Exchange Rate Forecasting

- a. International Parity Relationships
- BH, Chapter 6, 7, 8
- b. Forecasting Foreign Exchange Rates
- BH, Chapter 10

4. The International Financial Markets

- a. International Banking and International Money Markets
- BH, Chapter 11.
- b. International Bond Market
- BH, Chapter 11.
- c. International Equity Markets
- BH, Chapter 12.

5. Foreign Portfolio Investment (FPI)

- a. International Portfolio Investment
- BH, Chapter 13
- b. Foreign Portfolio Investment - Equity
- c. Foreign Portfolio Investment - Bonds

6. Foreign Direct Investment (FDI)

- a. Foreign Direct Investment and Cross-Border Acquisitions
- BH, Chapter 15.

APPENDIX A

Market Report Guidelines

- Recommendation (one paragraph)
 - Executive Summary
- 1. Country Overview**
 - Demographic Data
 - Political Organization
 - Recent History (related to international investments)
 - 2. Macro Fundamentals**
 - Structure of the Economy
 - Size and Importance of the Agricultural, Manufacturing, and Service Sectors
 - Monetary and Fiscal Policy
 - Interest Rates and Inflation
 - Balance of Payments
 - 3. Micro Fundamentals**
 - Labor Market, Major Industries, Competitiveness
 - Regulatory System, esp. regulation of the financial system (i.e., SEC-type regulations or self-regulation)
 - 4. Financial System**
 - Structure (banks, exchanges, futures and options markets)
 - Central Bank
 - Major Stock and Bond Markets
 - 5. Opportunities for Foreign Portfolio Investment**
 - Major Companies
 - Restrictions to Foreign Portfolio Investment
 - Different Opportunities for Foreign Portfolio Investors (e.g., ADRs, mutual funds, closed-end funds, ETFs)
 - 6. Market Performance**
 - Over a Period of Time (e.g. 6 months, 1 year, 2 years, 5years)
 - Comparison to Benchmarks (e.g., MSCI Mature Markets EAFE Index, and MSCI Emerging Markets Free Index)
 - Volatility of Returns
 - 7. Current Position**
 - Fraction of TIP's Assets Accounted for by the Market (if any).
 - 8. Summary and Outlook**

APPENDIX B

www Sites of Interest

These web sites contain abundant information about foreign economies and markets. They should be very useful as a starting point for research on your term project, as well as other aspects of foreign countries that may be of interest to you.

1. The British Broadcasting Corporation (BBC) – www.bbc.co.uk
2. Bloomberg - www.bloomberg.com
3. The Central Intelligence Agency (CIA) - www.odci.gov/cia
4. The Economist – www.economist.com
5. European Union (EU) - www.europa.eu.int
6. The International Monetary Fund (IMF) - www.imf.org
7. The Organization for Economic Cooperation and Development (OECD) - www.oecd.org
8. The United Nations - www.un.org
9. The U.S. Dept. of Commerce - www.doc.gov
10. The U.S. Dept. of State - www.state.gov
11. The World Bank (WB) – www.worldbank.org
12. The World Trade Organization (WTO) – www.wto.org