



**University of International Business and Economics
International Summer School**

FIN 230 International Finance and Investment

Instructor: Yi Wang

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Credit: 2 units

Students

This course is designed for students with strong backgrounds in economics, and with interests in banking and foreign exchange as well as international trade more generally.

Teaching Language

This course is taught in English.

Prerequisites

Basic knowledge of micro, macro and econometrics

Methods of Instruction

Lecturing and discussions

Classroom Capacity

30

Evaluation

Grades will be determined by one comprehensive finals exam at the end of the course.

About the Instructor

Yi David Wang is currently an economist at the IMF and associate professor at the University of International Business and Economics (UIBE), School of Banking and Finance. Prior to joining the IMF, he worked in BlackRock's investment strategy team, primarily involved in multi-asset allocation, country and sector rotation in the equity space, and also commodities such as gold and oil. David was an analyst in Morgan Stanley's Global Capital Markets division from 2004 to 2006. He started his career as a research assistant at the Chicago Fed from 2003 to 2004. David got his PhD in Economics from Stanford University in 2011 and his AB from University of Chicago in 2004, double concentrating in math and economics.

Course Description

This course is designed for students with intermediate backgrounds in economics and finance, and with interests in banking and foreign exchange as well as international investments in general.

It will cover exchange rate determination and purchasing power parity, hedging against foreign exchange risk by international businesses, interest-rate parity relationships across countries, and international investments in different asset classes (equity, fixed income, commodities).

Syllabus

1. Lecture 1

- Concepts to be covered
 - i. Basic concepts to foreign exchange markets
 - ii. Triangular arbitrage
 - iii. Purchasing power parity (absolute and relative)
 - iv. Law of one price
- Optional reading: McKinnon (1979), chs. 1, 2, 6, and 11. “The Convertible Currency System”
- Optional reading: relevant chapters in MSE

2. Lecture 2

- Concepts to be covered
 - i. Exchange rate determination
 - ii. Open interest rate parity
 - iii. Covered interest rate parity
 - iv. Exchange rate regimes
 - v. Quantity theory of money
- Optional readings:
 - McKinnon (1979), chs. 4, 5, and 9
 - Relevant chapters in MSE

3. Lecture 3

- Concepts to be covered
 - i. Case 1: Conversion restrictions in China’s spot market and its impact on forward pricing
 - ii. Introduction to global equity investing
- Required readings:
 - Wang, Yi David (2015) “Convertibility restriction in China’s foreign exchange market and its impact on forward pricing,” *Journal of Banking & Finance* 50, 616-613
 - “Investment Directions” from BlackRock

4/5. Lecture 4-5

- Concepts to be covered
 - i. Country-rotation to international equity investment (part 1)
 1. Valuation
 2. Profitability
 3. Risk/sentiment
- Optional reading:
 - STRATEGIC PERSPECTIVES: A PRACTICAL PORTFOLIO FRAMEWORK FOR LONG-TERM INVESTORS, BlackRock Solutions, July 2014 (one can google it for the download link)

6. Lecture 6

- Concepts to be covered
 - i. Country-rotation to international equity investment (part 2)

- ii. Enhanced valuation approach
 - 1. Time series vs. cross sectional
 - 2. Consistent beta vs. country specific beta

Required reading:

- 2015 Market Outlook by BlackRock

7. Lecture 7

- Concepts to be covered
 - i. Case 2: Was September 2011 a good time to invest in equities?

Required material:

- Excel model of Enhanced-valuation for equity investment

8. Lecture 8

- Concepts to be covered
 - i. Factors to consider for sovereign debt valuation

Required reading:

- Sections from IMF's debt sustainability analysis

9. Lecture 9

- Concepts to be covered
 - i. Trade financing
 - ii. Invoice currency vs. settlement currency
 - iii. Balance sheet currency mismatch
 - iv. Hedging of currency exposure for a multinational business

Optional readings:

- McKinnon, Ronald (1963), "Optimum Currency Areas", *AER* 53 pp 717-25
- Mundell, Robert. (1961), "A Theory of Optimum Currency Areas" *AER* 51
- Frankel, Jeffrey and Andrew Rose (2002) "An Estimate of the Effect of Common Currencies on Trade and Income" *QJE* May pp 437 – 466.

10. Lecture 10

- Concepts to be covered
 - i. Impact of macroeconomic factors on corporate solvency
 - ii. Discussion: Fed tapering on the solvency of international businesses

11. Lecture 11

- Concepts to be covered
 - i. Gold investing
- Required materials:
- Excel-based model discussed in class

12. Lecture 12

- Concepts to be covered
 - i. Discussion: why should non-energy firms care about the recent drop in oil price?
 - ii. Oil investing

13. Lecture 13

- Concepts to be covered
 - i. Review for the final exam

Required Text



To succeed in this course, regular attendance is essential. Slides associated with each lecture will be made available. Students are responsible for taking additional notes on exercises carried out in class. Students are responsible for locating optional reading materials. Required readings/materials will be made available

Reference Readings

Please note that these text books are not mandatory, but would be very useful for students without too much previous exposure to the topics

"Fundamentals of Multinational Finance" by Moffett, Stonehill, and Eiteman (hence forth MSE, recent editions are all acceptable)

McKinnon, Ronald I., Money in International Exchange: The Convertible Currency System (Oxford University Press, New York, 1979)