



University of International Business and Economics International Summer School

IFI 212 International Finance

Term: January 4 - January 29, 2021

Instructor: Dr. Pan, Xuefeng

Home Institution: University of International Business and Economics in Beijing

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Class Hours: Monday through Friday, 120 mins per teaching day (2,400 minutes in total)

Total Contact Hours: 64 contact hours (45 minutes each, 48 hours in total)

Office Hours: Thursdays 10am-12pm at 716 Boxue Hall, or by appointment.

Course Description:

As an entry-level international finance class, this course will be organized along four themes: 1) Micro structure of international financial market, including the transaction, the pricing and the risks of major foreign exchange (FX) instruments and derivatives; 2) Exchange rates in an open economy setting, including the determinants, the behavior, the consequence and the hedging of exchange rate risk; 3) Flow of funds across borders, including trade flow and speculative capital inflow as well as their implications for policy making in emerging economies ; 4) Tools and costs of financing in the context of global financial market and their implications for multinational business management.

Course Goals:

The primary goal of this class is to help students understand facts, problems and tasks in international finance and to equip them with concepts and tools that can help them respond, from the perspectives of policy making and of asset management, to changes and challenges facing international trade, capital flow and multinational business management. In addition, by integrating micro analysis on FX instruments with macro analysis on FX policy, the class can help improve fundamental analytical skills that benefit FX market growth and stability.

Required Textbooks:

- International Economics: Theory and Policy by Paul Krugman, Maurice Obstfeld, and Marc Melitz, 11th edition. ISBN-10: 0134519574
- International Financial Management, by Jeff Madura, 13th edition, ISBN-10: 9781337099738

Attendance, Quizzes and Exam:

Your class performance will be evaluated by attendance, quizzes and a final exam, with weights:

- Attendance 20%

- Quizzes 40%
- Final Exam 40%

Attendance:

Attendance is required for each lecture and do remember to sign-on the attendance sheet if and only if you attend the class. You are responsible for keeping track of your attendance record. Only sick leave with doctor's note can be excused.

Quizzes:

There will be a total of four weekly quizzes and each quiz comes with a 10%. The quiz itself functions as the first session of the lecture on that day and then the instructor will go over the solution at the second session of the lecture. No make-up quiz will be given. If you miss any quiz for any reason, its weight will automatically go to your final exam.

Final exam:

Final exam firmly scheduled on Jan 29 and covers all chapters of the class. Questions in the quizzes will be reflected in the final exam, though not in exactly the same form. Similar to the quizzes, the final exam will include three sections: Multiple Choice, Short-Answer and Calculation Questions. No make-up exam will be given.

Grading Scale:

Your class performance will be translated into a letter grade based on the scale below:

A	90-100	C+	72-74
A-	85-89	C	68-71
B+	82-84	C-	64-67
B	78-81	D	60-63
B-	75-77	F	below 60

Ground Rules:

- You are responsible for following any announcement given in the class and/or online.
- Unless otherwise permitted, no use of laptop, tablet and cell phone during the class.
- Treat your classmates and the instructor the way you would like them to treat you.
- Commit no acts or attempts of cheating on any attendance, quiz and the exam.
- Comply with all academic rules of UIBE and those of your home university.

Course Schedule:

Below is a tentative class schedule. Please be advised that the instructor may adjust the schedule according to the progress and the difficulty of the class.

Day 1, Monday (Jan 4): International Financial Market Overview

- Markets: FX market; bond market; credit market; money market; stock market
- Derivatives: Spot FX; Future FX; Hedging; Currency Swap, Future, Options
- Regulations: Fixed exchange rate system and Floating exchange rate system

Readings:

Madura, Chapter 3. International Financial Market

Madura, Chapter 5. Currency Derivatives

Krugman, et al, Chapter 20. Financial Globalization: Opportunity and Crisis

Day 2, Tuesday (Jan 5): Exchange Rate

- National Income Accounting
- Real and Nominal Exchange Rate
- Foreign Exchange Market
- Mundell-Fleming Model

Readings:

Krugman, et al, Chapter 13. National Income Accounting and the Balance of Payments

Krugman, et al, Chapter 14. Exchange Rates and the Foreign Exchange Market

Day 3, Wednesday (Jan 6): Determinants of Exchange Rate

- Money Supply-Demand
- Relative Interest Rate
- Relative Inflation
- Relative Income
- Expectation

Readings:

Madura, Chapter 4. Exchange Rate Determination

Krugman, et al, Chapter 15. Money, Interest Rates, and Exchange Rates

Day 4, Thursday (Jan 7): Behavior of Exchange Rate

- Law of One Price
- Purchasing Power Parity
- Interest Rate Parity
- International Fisher Effect

Readings:

Krugman, et al, Chapter 16. Price Level and the Exchange Rate in the Long Run

Madura, Chapter 7. International Arbitrage and Interest Rate Parity

Madura, Chapter 8. Relationships among Inflation, Interest Rates and Exchange Rates

Day 5, Friday (Jan 8): Quiz 1 and Go-over

- Quiz 1 (Covering materials from Day 1-5)
- Go over the solution to Quiz 1

Day 6, Monday (Jan 11): International Trade Flow

- Current Account
- International Trade
- Factors Affecting International Trade Flow

Readings:

Madura, Chapter 2. International Flow of Funds
Madura, Chapter 19. Financing International Trade

Day 7, Tuesday (Jan 12): International Capital Flow

- Capital Account
- Interest Rate Parity Revisited
- Factors Affecting International Capital Flow

Readings:

Madura, Chapter 2. International Flow of Funds
Madura, Chapter 13. Direct Foreign Investments

Day 8, Wednesday (Jan 13): Policy Regulation on Capital Flow

- Open Market Operation on Foreign Exchange Market
- Fixed and Floating Exchange Rates
- Impossible Trinity

Readings:

Krugman, et al, Chapter 18. Fixed Exchange Rates and Foreign Exchange Intervention
Krugman, et al, Chapter 19. International Monetary System: An Historical Overview

Day 9, Thursday (Jan 14): Currency Crisis

- Fixed and Floating Exchange Rate Systems
- Asian Financial Crisis 1997
- Global Financial Crisis 2007-2009 and European Debt Crisis 2014

Readings:

Krugman, et al, Chapter 20 Financial Globalization: Opportunity and Crisis

Day 10, Friday (Jan 15): Quiz 2 and Go-over

- Quiz 2 (Covering materials from Day 6-9)
- Go over the solution to Quiz 2

Day 11, Monday (Jan 18): Exchange Rate Risk

- Exchange Rate Risk
- Forecasting Exchange Rate
- Measuring Exposure to Exchange Rate Fluctuation

Readings:

Madura, Chapter 9. Forecasting Exchange Rate.

Madura, Chapter 10. Measuring Exposure to Exchange Rate Fluctuation

Day 12, Tuesday (Jan 19): Government Influence on Exchange Rate

- Economic Reliance on Exporting and Importing
- Monetary Policy Goals
- Exchange Rate Systems

Readings:

Madura, Chapter 6. Government Influence on Exchange Rate

Day 13, Wednesday (Jan 20): Manage Exchange Rate Risk

- Transaction Exposure to Exchange Rate Fluctuation
- Hedging Transaction Exposure
- Policy for Hedging Transaction Exposure
- Limitation of Hedging

Readings:

Madura, Chapter 11. Managing Transaction Exposure

Day 14, Thursday (Jan 21): Manage Exchange Rate Risk (continued)

- Economic Exposure to Exchange Rate Fluctuation
- Hedging Economic Exposure
- Policy for Hedging Economic Exposure
- Limitation of Hedging

Readings:

Madura, Chapter 12. Managing Economic and Translation Exposure

Day 15, Friday (Jan 22): Quiz 3 and Go-over

- Quiz 3 (Covering materials from Day 11-14)
- Go over the solution to Quiz 3

Day 16, Monday (Jan 25): Short-Term Financing and International Cash Management

- Source of Foreign Financing
- Financing with a Foreign Currency
- Multinational and Centralized Cash Management
- Optimal Cash Flow and Investing Excess Cash

Readings:

Madura, Chapter 20. Short-Term Financing

Madura, Chapter 21. International Cash Management

Day 17, Tuesday (Jan 26): Long-Term Financing and Liability Management

- Capital Structure and Cost of Capital
- Long-term Debt Financing
- International Direct Financing versus International Borrowing

Readings:

Madura, Chapter 17. Multinational Capital Structure and Cost of Capital

Madura, Chapter 17. Long-Term Debt Financing

Day 18, Wednesday (Jan 27): Country Risk Analysis

- Country Risk Characteristics
- Measuring Country Risk

Readings:

Madura, Chapter 16. Country Risk Analysis

Day 19, Thursday (Jan 28): Quiz 4 and Go-over

- Quiz 4 (open book)
- Go over the solution to Quiz 4

Day 20, Friday (Jan 29): FINAL EXAM, Cumulative, covering all Chapters aforementioned.