University of Haifa-Graduate School of Management

International MBA

International Finance (209.4972)

Period 6, October-November 2017

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Office hours: on lecture days, on a **pre-arranged** basis

International finance is concerned with the dynamics of exchange rates, foreign investment, and foreign trade. These international aspects of financial management should be of interest to corporate managers worldwide because in today's globally integrated world, the financial decisions of firms are not limited to domestic boundaries. Indeed, both multinational corporations as well as domestic firms that engage in import or export should consider international opportunities and manage international risks.

This course introduces students to International Finance, emphasizing aspects relating to international corporate financial management. The aim is to equip tomorrow's corporate leaders with knowledge and tools to help them in effectively leading their organisations through the challenges of a constantly changing environment.

Topics to be covered include the global financial and corporate environment; foreign exchange markets and theories; foreign exchange exposure; and current issues and debates relating to international economics and finance.

The final grade for the course is composed as follows:

Class attendance & participation	10%
Essay	40% (see appendix A)
Final exam (1 ½ hours)	50% (see appendix B)

A passing grade in each of the above components is a necessary condition for a passing grade in the course.

Course content:

#	Friday 11-14	Topic	ESM[1]	BMA[2]
1	27.10.17	Introduction, Foreign Exchange Markets	5	27
2	3.11.17	International Parity Conditions	6	27
3	10.11.17	Foreign Exchange Exposure, risk and opportunities	10	26, 27
4	17.11.17	Review of the course & preparation for exam		

[1] Chapters in Eiteman, Stonehill and Moffett (2015), see below

[2] Chapters in Brealey, Myers, and Allen (2014), see below

Textbook:

The textbook for this course is: Eiteman, D.K., A.I. Stonehill and M.H. Moffett, *Multinational Business Finance*, 14th Ed., 2015, Pearson[3]

An additional recommended textbook is: Richard Brealey, Stewart Myers, and Franklin Allen, Principles of Corporate Finance, 11th Edition, McGraw Hill Higher Education (2014)

Appendix A: Essay (40%)

1. **Instructions:**

   Each student is required to select one of the topics listed below, on which to write a short essay. The idea is to explain the topic in a simple, clear and interesting way. The format is to address the topic in <u>four paragraphs and 500-600 words</u>. The four paragraphs are:

   a) the set-up/question

   b) the background

   c) the actual explanation

   d) the consequences/implications.

   You should display originality, wit, crisp writing and clarity of thought, and could follow the style of the *Economist Explains* (see https://www.economist.com/blogs/economist-explains)

   The essay is to be submitted in hard copy on session 4.

2. **List of topics (only one student per topic, on a first-come-first-serve basis):**

   1 Virtual currency

   2 Fintech

   3 Global financial cybercrime

   4 The Equator Principles

   5 Political risk in investment

   6 Current account deficit

   7 Cashless systems and their influences on society

[3]Key to chapters in various editions of Eiteman, D.K., A.I. Stonehill and M.H. Moffett, *Multinational Business Finance*, Pearson:

Chapter	14th edition	13th edition	12th edition	11th edition	10th edition
Foreign Exchange Markets	5	6	6	6	4
International Parity Conditions	6	7	7	4	6
Transaction exposure	10	10	11	8	8

8 The global financial crisis of 2008

9 Crowdfunding

10 Microfinance

11 Interest rate parity

12 Purchasing power parity

13 Bretton Woods system

14 Multinational corporation

15 Cross border merges and acquisitions

Appendix B: Final Exam

The examination is made up of two parts.

Part 1 is worth 50 marks. It consists of 10 multiple-choice questions of 5 marks each. You need to answer all questions by circling the letter for the answer of your choice on the exam sheet.

Part 2 consists of one open question and is worth 50 marks.

Materials allowed for use during the exam include a calculator and a pen. No other materials are allowed.

Length of exam: 90 minutes (1 ½ hour)

Following is a mock exam with answers for part 1

Part 1: multiple-choice questions

1. A foreign currency ___________ calls for the future delivery of a negotiated amount of foreign exchange at a fixed time, place, and price.
   a. Spot rate
   b. Forward contract
   c. Call option
   d. Futures contract
   e. Swap contract

2. If according to the *Law of One Price* the current exchange rate of dollars per Swiss Franc is SF0.800/$, then at an exchange rate of SF0.797/$, the dollar is ________.

   a. Overvalued
   b. Undervalued
   c. Correctly valued
   d. Unknown relative valuation
   e. Depends on the rates of interest in the respective countries.

3. Which of the following statements correctly describes a distinction between a currency futures contract and a forward contract?

   (i) Traditionally, the futures contract is marked to market daily whereas the forward contract is only due to be settled at maturity.

   (ii) The counterparty to the futures participant is unknown, with the clearinghouse stepping into each transaction. In contrast, the forward contract participants are in direct contact to set the forward specifications.

   (iii) Forward contracts are exchange-traded while futures contracts are private agreements between two parties.

   (iv) Futures contracts are quite frequently employed by speculators, who bet on the direction in which an asset's price will move. On the other hand, forward contracts are mostly used by hedgers that want to eliminate the volatility of an asset's price.

   a. Only statements (i), (ii) and (iii)
   b. Only statements (i) and (ii) and (iv).
   c. Only statements (ii), (iii) and (iv)
   d. Statements (i), (ii), (iii) and (iv)
   e. None of the statements

4. The current exchange rate is 76.75 Japanese yen per U.S. dollar. The price of a Big Mac hamburger in the United States is $3.73, and the price of a Big Mac hamburger in Japan is 320 yen. Other things equal, the Japanese yen is ________.

   a. Correctly valued
   b. undervalued
   c. overvalued
   d. not enough information to determine whether the current valuation is appropriate or not
   e. there is more than one true statement

5. A quotation in the form USD/ILS=3.422 is:
    a. an indirect quotation in Israel
    b. a direct quotation in the USA
    c. a quote in European terms
    d. a quote in American terms
    e. none of the above

6. Assume that the following major exchange rates are quoted:

EUR/USD:	1.4328	1.4333
GBP/USD:	1.6453	1.6458
USD/JPY:	76.82	76.87

    The EUR/JPY <u>ask</u> price is:
    a. ¥100.00/€
    b. ¥110.07/€
    c. ¥110.18/€
    d. ¥110.11/€
    e. ¥110.14/€

7. The economic theories that are referred to as *International Parity Conditions*:
    a. hold that forward exchange rates are unbiased predictors of future spot rates.
    b. hold that the relative change in prices between two countries over a period of time determines the change in the exchange rate over that period.
    c. assert that in equilibrium, the exchange rate between two currencies is equal to the ratio of the relevant local prices of an identical product.
    d. hold that the difference in nominal interest rates equals to the difference in the expected inflation rates.
    e. provide for equilibrium between spot and forward exchange rates, interest rates and inflation rates.

8. Between the beginning of 2000 and the end of 2006 prices in Turkey rose 5.6 times and the purchasing power declined by about 82%.

   a. If the Turkish currency had not appreciated relative to the US dollar, Turkish importers would have found it much more difficult to sell their goods.
   b. If the Turkish currency had not depreciated relative to the US dollar, Turkish importers would have found it much more difficult to sell their goods.
   c. If the Turkish currency had not depreciated relative to the US dollar, Turkish exporters would have found it much easier to sell their goods.
   d. If the Turkish currency had not depreciated relative to the US dollar, Turkish exporters would have found it much more difficult to sell their goods.
   e. If the Turkish currency had not appreciated relative to the US dollar, Turkish exporters would have found it much more difficult to sell their goods.

9. Most foreign exchange transactions in the interbank market are through the U.S. dollar. If the transaction is expressed as the foreign currency per dollar this known as ________ whereas ________ are expressed as dollars per foreign unit.

   a. European terms; indirect
   b. American terms; direct
   c. European terms; American terms
   d. American terms; European terms
   e. Direct; indirect

10. The price of a Big Mac in China is 13.2 yuan which is equivalent to $2.04 at the current exchange rate. In the US a Big Mac costs $3.73. This difference in prices:

   (i) indicates that the yuan is possibly overvalued.

   (ii) has to be taken lightly because the price of a Big Mac depends heavily on local inputs.

   (iii) would have been a better indication of currency misalignment if China and the US had been at a similar stage of development

   Which of the above statements is true?

   a. Only statements (i) and (ii) are correct
   b. Only statements (ii) and (iii) are correct
   c. Only statements (i) and (iii) are correct
   d. Statements (i), (ii) and (iii) are correct
   e. None of the statements is correct

Part 2: open question

As part of the course, each student was required to write and submit a short essay on a topic selected out of a given list. Please state what was the topic you selected and briefly explain the question/set up and its implications.

Answers to part 1

1b

2b

3b

4c

5c

6c

7e

8d

9c

10b