

## **BFM208 INTERNATIONAL FINANCE**

### **Academic Year 2013/14**

Number of Aston Credits: 15

Number of ECTS Credits: 7.5

### **Staff Member Responsible for the Module:**

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### **Pre-requisites for the Module:**

Students must be registered for the MSc Finance & Investment, or the MSc Investment Analysis degree

### **Mode of Attendance:**

On campus

### **Module Objectives / Learning Outcomes**

The purpose of this module is to provide you with an in-depth understanding of specific issues in international finance particularly in relation to the impacts of risk on the multinational firm. The module will cover the following broad areas: (i) the role of international financial markets; (ii) the financial problems faced by multinational firms when undertaking international trade and investments; and (iii) the financial strategies used by multinational firms to alleviate the problems posed by pricing and political risks. Emphasis will be placed on the use of various financial instruments to manage risk. The relevance of both theoretical and empirical works will be highlighted to enable you to understand the financial issues that firms and investors face when they operate in an international setting.

Upon completion of this module you should be able to:

- > Identify and explain the operational significance of international financial markets
- > Identify and explain the various types of risks faced by firms and the strategies they use to manage such risks
- > Describe, explain and illustrate the basic theories about exchange rate determination
- > Understand the functions of international stock exchanges and the issues associated with international investments
- > Identify some of the sources of international finance and the attitudes of international investors
- > Understand how the cash flows of international investments are evaluated

These objectives contribute in whole, or in part, to the following programme level outcomes (see the curriculum map in the PG handbook): A1-A5, B1-B3, C1-C3, D2-D7.

## Module Content:

### Week 1: Finance across the Globe

Overview of the financial system; Relevance of international finance to corporations; The multinational corporation (MNC) and its financial objectives; Methods of expansion used by firms; Theories of foreign direct investment

Reading Material: *Seminar Notes; Madura & Fox, Ch. 1, pp. 2-19; Ch.3, pp. 65-67; 77-78; 82-91; Ch.5, pp. 134-135, pp. 141-144; Ch.13 OR Buckley, Ch.3, pp. 36-43; Ch.20; then: Biswas (2002); Hood & Young (1979); Morck & Yeung (1992); William (1997); Froot & Stein (1991)*

### Week 2: The Foreign Exchange Market

Parity relations; Exchange rate determination and empirical evidence; Market efficiency and exchange rate (un)biasedness; Testing the unbiasedness hypothesis

Reading Material: *Seminar Notes; Madura & Fox, Ch.4, 7 & 8 OR Buckley, Ch.4; Ch.3, pp. 36-43; Ch.20*

### Week 3: Foreign Exchange Exposure and Firm Valuation

Role of centralised functions; Transaction, translation, and economic exposures; Valuing a foreign subsidiary; Exposure management practice

Reading Material: *Seminar Notes; Madura & Fox, Ch.1, pp. 21-27; Ch.4, pp. 125; Ch.10, pp. 339-342 pp. 350-361; Ch.11, pp. 369-392; Ch.12, pp. 416-433; Ch.13 OR Buckley, Ch.8; Ch.10, pp.169-176; Ch.11, pp. 191-204*

#### **Week 4: External Hedging Techniques (1)**

The foreign exchange and the money markets; Spot and forward rates and the associated contracts; Buying and selling currencies; Cross-rates

Reading Material: *Seminar Notes; Madura & Fox, Ch.3, pp. 68-78; Ch.5, pp. 134-140 OR Buckley Ch. 5; Ch.13, pp. 229-234; Ch.16, pp. 273-282; Ch.17, pp. 301-316*

#### **Week 5: External Hedging Techniques (2)**

Pricing forwards and futures; Currency swaps and the motives for using them; Interest rate swaps and the motives for using them

Reading Material: *Seminar Notes; Madura & Fox, Ch.5, pp. 134-145; pp. 147-148; Ch.11, pp. 371-393, Ch.16, pp. 547-559 OR Buckley, Ch.14, pp. 245-253; pp. 259-264; then: Wall & Pringle (1989); Goswami & Shrikhande (1998)*

#### **Week 6: External Hedging Techniques (3) & Internal Hedging Techniques**

Currency options; Valuing / Pricing options; Internal hedging techniques

Reading Material: *Seminar Notes; Madura & Fox, Ch.5, pp. 150-166; Ch.11, pp. 378; pp. 392-395 OR Buckley, Ch.16, pp. 286-302*

#### **Week 7: To Hedge or Not to Hedge Corporate Exposures**

Motives for hedging corporate exposure

Reading Material: *Seminar Notes; Madura & Fox, Ch.10, pp. 337-342; pp. 357-361; pp. 432 OR Buckley, Ch.11, pp. 180-192; then: Joseph & Hewins(1997); Eun & Resnick (1988); Hagelin (2003)*

#### **Week 8: Business across Borders and International Capital Budgeting**

Why firms list their shares on more than one stock exchange; The importance of a well-run stock exchange; Problems of international capital budgeting; Salvage value; A fully-worked example

Reading Material: *Seminar Notes; Madura & Fox, Ch.1, pp. 21; Ch.13 & 14 OR Buckley, Ch.22; Ch.24, pp. 472-475; Ch. 26*

#### **Week 9: Revision**

#### **Week 10: Examination**

This outline is intended to be a general guide for the module and it is not an all-encompassing description of the topics or expected learning outcomes

These objectives contribute in whole, or in part, to the following programme level outcomes (see the curriculum map in the PG Handbook): A1, A3-A6, B1-B5, C1-C3, D2, D3 and D5 (MSC F&I) and D6 (MSc IA)

### **Corporate Connections:**

The module will draw on the experience of investment professionals wherever possible

### **International Dimensions:**

This module is primarily concerned with the impacts of the international economic environment on the operations of firms. The module emphasises the financial decisions that the firm's managers can make to minimise adverse economic impacts. Thus, the module will concentrate on economic situations where (say) a UK based firm is exposed to changes in the dollar / pound exchange rate due to its operations in (say) the United States. A lot of the work that will be done in this module will have a similar emphasis

### **Contribution of Research:**

The required reading will connect students to the research literature

### **Ethics, Responsibility & Sustainability:**

Transnational financial flows naturally impact upon these issues, and this will be noted as the module progresses

### **Method of Teaching:**

A 3-hour session will be held each week and this time will be used creatively to provide lecture material, exercises, group discussions and group assignments. In addition, the lecturer will be available for individual queries during office hours and by e-mail

### **Method of Assessment and Feedback:**

2-hour closed book examination (only). All aspects of the syllabus are examinable. All module level outcomes are assessed in this way

Feedback is available on request either during office hours or via email

### Learning Hours:

Pre-reading	25
Contact Hours	30
Directed Learning	30
Private Study	40
Additional Learning Hours	25
<b>Total</b>	<b>150</b>

The following readings are subject to change. Students should not therefore purchase textbooks prior to commencing their course. If students wish to undertake background reading before starting the course, many of the chapters / readings are available in electronic form via on-line library catalogues and other resources.

### Pre-reading:

*Madura & Fox: Ch.1, pp. 2-19; Ch.3, pp. 65-67; 77-78; 82-91; Ch.5, pp.134-135, pp.141-144; Ch.13*

*Madura & Fox: Ch.4 & 7*

### Essential Reading:

It is very important to read some of the material provided below because this will enable you to obtain a broader understanding of the subject. Always purchase the most recent version of the main textbook.

**Main text:** Madura, J. & R. Fox (2011), "*International Financial Management*", 2<sup>nd</sup> Edition, Cengage Learning

Or

Buckley, A (2004), "*Multinational Finance*", 5<sup>th</sup> Edition, FT Prentice Hall

### Indicative Bibliography:

See "Reading List" on Blackboard for a full list of references



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Students are advised to read the Financial Times and the Economist on a regular basis. This will help to put some of the material covered in the module in context.



For further information on any of the opportunities that Aston Business School offers, please contact:

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