Aston Business School
Birmingham

BFM208 INTERNATIONAL FINANCE

Academic Year 2012/13

Number of Aston Credits:	15
Number of ECTS Credits:	7.5

Staff Member Responsible for the Module:

Dr Antonios Kassanis, Finance and Accounting Group
Aston Business School, Room: 415 Extension: 3694
Email: a.kassanis@aston.ac.uk
Availability: See 'Office hours'

Or contact the Finance, Accounting & Law Group Administrator, Rosaleen Shirley, Room: ABS404, Extension: 3238

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 posted 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 understanding the financial issues facing firms and investors when they operate in an international setting.

Aston Business School
Birmingham

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.

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 incl. Seminar Notes; Madura & Fox, Chap. 1, pp. 3-19; Chap 3, pp. 65-67; 77-78; 82-91; Chap 5, pp. 134-135, pp. 141-144; Chap 13. OR Buckley, Chap.3, pp. 36-43; Chap. 20; then: Biswas (2002); Hood and Young (1979); Morck and Yeung (1992); William (1997); Froot and 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 incl. Seminar Notes: Madura & Fox, Chap 4,7 & 8; OR Buckley, Chap 4; Chap. 3, pp. 36-43; Chap 20.

Week 3:

Foreign Exchange Exposure and Firm Valuation
Role of centralised functions
Transaction, translation, economic and competitive exposures.
Valuing a foreign subsidiary
Exposure management practice
Reading Material: Seminar Notes; Madura & Fox, Chap. 1, pp. 21-27; Chap 4, 125; Chap 10, pp. 339-342; 350-361; Chap11, pp. 369-392; Chap 12, pp. 416-433 , Chap 13. OR Buckley, Chap 8; then: Chap 10, pp. 169-176; Chap.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 incl. Seminar Notes: Madura & Fox, Chap. 3, pp. 68-78; Chap 5, pp. 134-140. OR Buckley Chap 5; Chap 13, pp. 229-234; Chap 16, pp. 272-281; Chap 17, pp. 301-316.

Week 5: External hedging techniques (2)
Pricing forwards and futures under risk neutrality
Currency swaps and the motives for using them
Interest rate swaps and the motives for using them

Reading Material: Seminar Notes; Madura & Fox, chap 5, pp. 134-145;pp, 147-148; Chap 11, 371-393; Chap, 16, pp. 547-556. OR Buckley, Chap 14, pp. 245-254; 259-264; then: Wall and Pringle (1989); Tucker et al, Chap. 13, pp. 248-249; pp. 252-255; Goswami (1998).

Week 6: External Hedging Techniques (3)
Financial options
Valuing options
Internal hedging techniques

Reading Material: Seminar Notes; Madura & Fox, Chap 5, pp. 150-166; Chap 11,378; 392-395; OR Buckley, Chap 16, pp. 286-302. Lufthansa (see, Eiteman et al, 2001, pp. 187-193; see Electronic Resources).

Week 7: To Hedge or not to Hedge Corporate Exposures
Motives for hedging corporate exposure

Reading Material: Seminar Notes; Madura & Fox, Chap 10, pp. 337-342;357-361; p. 432. OR Buckley Chap 11, pp. 180-192; then: Joseph and Hewins (1997); Eun and 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 Chap1, pp. 21; Chaps 13, 14. OR Buckley Chap 22; Chap 24, pp. 472-475; Chap 26.

Week 9: Revision

Week 10: Examination

This outline is intended to be a general guide for the module and 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.

Aston Business School
Birmingham

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, via email or on Blackboard.

Learning Hours:

Contact Hours	30
Directed Learning	30
Private Study	40
Additional Learning Hours	50
Total	**150**

The following essential and recommended 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.

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. and Fox, R. (2011) International Financial Management, Thomson Publishing Services
Or
Buckley, A. (2004). Multinational Finance, 5th Edition. F.T. Prentice Hall.

Indicative Bibliography:

Barnhart, S. and Szakmary, A., (1991). Testing the unbiased forward rate hypothesis: evidence on unit roots, cointegration, and stochastic coefficients, Journal of Financial and Quantitative Analysis, 26, 245-267.

*Biswas, R. (2002) Determinants of foreign direct investments. Review of Development Economics, Vol. 6, 492-504.

Caporale, G.M. and M. Cerrato (2006), “Panel data tests of PPP: a critical overview”, Applied Financial Economics, 16, 1-2, 73-91.

Eun, C. and Resnick, B. (1988) Exchange rate uncertainty, forward contracts, and international portfolio selection. Journal of Finance, 43, 197–215.

Froot, K and Stein, C. (1991). Exchange rates and foreign direct investment: an imperfect capital markets approach, The Quarterly Journal of Economics,106, 1991-1217.

Goswami, G. (1998). Interest rate swaps and economic exposure, www.bnet.fordham.edu/public/finance/goswami/ecoexpo.pdf

Hagelin, N., (2003). Why Firms Hedge with Currency Derivatives: An Examination of Transaction and Translation Exposure, Applied Financial Economics, 13, No.1.

*Hood, N. and Young, S (1979) The determinants of foreign direct investment, Ch 2. In The Economics of Multinational Enterprise, Longman.

*Joseph, N. and R. Hewins (1997). The Motives for Corporate Hedging among UK Multinationals, International Journal of Finance and Economics, Vol. 2, 151-171.

Lothian, J, and Wu, L (2003). Uncovered interest rate parity over the past two centuries http://papers.ssrn.com/sol3/papers.cfm?abstract_id=585462.

Marston, R. (1997). Tests of three parity conditions: distinguishing risk premia and systematic forecast errors, Journal of International Money and Finance 16, 285-303.

Morck, R. and Yeung, B. (1992). Internationalization: an event study. Journal of International Economics, 33, 41-56.

Naka, A, and Whitney, G. (1995) and The unbiased forward rate hypothesis re examined, Journal of International Money and Finance 14, 857-867.
Taylor, A.M. and M.P Taylor (2004), “The purchasing power debate”, Journal of Economic Perspectives, 18, 4, 135-158.

*Tucker, A., Madura, J. and Chiang, T. (1991). International Financial Markets, Chap 13, West Publishing Company

*Wall, L and Pringle, J. (1989). Alternative explanations of Interest rate swaps: A theoretical and empirical analysis, Financial Management, Summer, 59-73.

*Williams, B. (1997) Positive theories of multinational banking: eclectic theory versus internationalisation, Journal of Economic Surveys, Vol. 11, 71-101.

*indicates provided on Blackboard. Other readings can be obtained in the Library some on short-term loan.

You should read the Financial Times and the Economist on a regular basis. This will help you to put some of the material covered in the module in context.