COURSE OUTLINE

This course provides a rigorous introduction to the fundamental principles of international financial management. The goal is to provide a framework for making financial decisions in an international context. Topics to cover include: foreign exchange markets, parity conditions on foreign exchange rates, currency investments, currency risk management, derivative contracts on currencies, international capital markets, international portfolio diversification, and multinational capital budgeting.

Course Objectives:

1. the international financial environment, where we study the core of the material on foreign exchange. Topics to be discussed include foreign exchange markets and international parity propositions

2. currency risk management, where we study how the exchange rates volatility creates risks for corporations and how these risks can be managed
3. international portfolio investment and international corporate finance, where our focus is on multinational capital budgeting. Students will be exposed to a broad range of topics, including some of the latest developments in global financial markets.

**Prerequisites:**

ECON1001 Introduction to Economics I and FINA1003 Corporate Finance

**Course Materials:**

The primary source for the course will be *International Finance*, 7th ed. authored by C. S. Eun and B. G. Resnick, McGraw-Hill, 2014. The in-class lectures by the instructor, and examinations will be based primarily on this material. Supplementary materials will be distributed in class.

Class materials as well as course announcements will be posted on the course web site [http://www.sef.hku.hk/~xuyan/teaching/0105](http://www.sef.hku.hk/~xuyan/teaching/0105). Please print out the lecture notes and bring to class.

**Class Preparation:**

Please read the relevant textbook chapter and supplementary materials assigned for a class before that class. A financial calculator such as BA-II Plus model (Texas Instruments) is preferred.

**Work Environment and Attendance Policy:**

- All cell phones and beepers must be turned off in class. Answering phones is strictly prohibited. Violations will be punished.

- Office hours and help sessions should never be used to make up for missed classes: They are intended to complement class lectures but not to replace them.

**Grading:**

Grades will be based on the following scale:
In-class and Tutorial performance 5%
Homework 20%
Midterm Exam 25%
Final Exam 50%
Total 100%

The mid-term exams and a final exam will be administered during the assigned periods. The exams will be closed book. The final exam will be comprehensive. You will be assigned four problem sets as homework to prepare you for the exams. Problem set due dates will be announced in class. No credit will be given for problem sets turned in after the due date. It is your responsibility to show up on time for the exams. If you fail to take the mid-term exams for ANY NON-MEDICAL REASON, then your grade will be calculated as 80% of your final exam grade. If you do not take the mid-term exam due to MEDICAL REASONS, then your grade will be calculated the same as your final exam grade.

Academic Honesty:

• The attempt to pass any examination by improper means is a very serious offense and will be treated with extreme prejudice.

• The aiding and abetting of a student in any dishonesty is likewise held to be a great breach of discipline.

• Check the University Statement on plagiarism on the web: http://www.hku.hk/plagiarism/.

Academic dishonesty is any act that misrepresents a person’s own academic work or that compromises the academic work of another. It includes (but not limited to) cheating on assignments or examinations; plagiarizing, i.e., representing someone else’s ideas as if they are one’s own; sabotaging another’s work.

I am morally obliged to report any instances of academic dishonesty (e.g., cheating, obtaining an unfair advantage, aiding and abetting dishonest conduct) to the university, and I will treat them as severely as established procedures allow. I am serious. By violating academic integrity, you are risking not only your course credit but perhaps also your college degree.

If you are caught in an act of academic dishonesty or misconduct, you will receive an “F” grade for the subject. The relevant Board of Examiners may impose other penalty in relation to the seriousness of the offense.
FINA 0105/2383 Topical Outline:

1. Chapter 1: Introduction to International Finance

2. The Foreign Exchange Market and Parity Conditions
   - Reading Assignment: Chapter 5, 6
   - Problem set 1

3. Managing Economic Exposure
   - Reading Assignment: Chapter 9
   - Problem set 2
   - First exam: Oct 26, Friday

4. Managing Transaction Exposure
   - Reading Assignment: Chapter 7, 8

5. Currency and Interest Rate Swaps
   - Reading Assignment: Chapter 14
   - Problem set 3
   - Second exam: Nov 16, Friday

6. International portfolio investment
   - Reading Assignment: Chapter 15

7. Multinational Capital Budgeting
   - Reading Assignment: Chapter 17, 18
   - Problem set 4