

NORTHWESTERN UNIVERSITY

Kellogg School of Management

FINANCE 470 - INTERNATIONAL FINANCE

FALL QUARTER 2011
EVANSTON CAMPUS

PROFESSOR SERGIO REBELO

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COURSE DESCRIPTION

Managing an international business or one exposed to global competition requires an understanding of international financial instruments, markets, and institutions. This course seeks to provide you with a working knowledge of these issues. The topics we cover include: the nature of foreign exchange risk, the determination of exchange rates and interest rates, the management of foreign exchange risk with forwards and options, exchange rate forecasting, and the evaluation of international investments. We also discuss currency speculation strategies and the impact of monetary policy on exchange rates.

PREREQUISITES

The only formal prerequisite for the course is Finance 430. Knowledge of elementary principles of Macroeconomics is helpful throughout, although necessary concepts are developed from first principles.

TEXTBOOK AND CASE PACKET

There is no required textbook for the course. The recommended textbook is *International Financial Management*, 6th Edition, by Cheol Eun and Bruce Resnick, McGraw-Hill- Irwin, 2012. This text is used as a complement, not as a substitute for the lectures.

The case packet includes copies of the overhead slides used in the lectures as well chapter 14 of Frederic Mishkin's *The Economics of Money, Banking and Financial Markets*, Addison-Wesley, 9th Edition, 2010. This chapter is useful to review the Macroeconomics background material covered in the first week.

Supplementary materials are handed out in class. I encourage you to bring to class articles from publications such as the *Wall Street Journal*, the *Financial Times*, *The Economist* and *Business Week* that you find interesting.

Course materials are posted in Blackboard.

EVALUATION

The grade in this course is based on a set of Homework Problems (20%), Class Participation (10%), a Midterm Exam (25%), and a Final Exam (45%).

Homework problems are solved in groups of up to five students. Homeworks are due in the beginning of the class to which they are assigned. Late homeworks are not accepted. Assignment due dates are not negotiable.

The Kellogg honor code strictly applies. Exams must be completed independently. Homework problems must be solved without consulting answers to previous years' problems.

The midterm exam will take place during class on Thursday, October 27, 2011.

The final exam is two-hours long and it is scheduled for the week of December 5, 2011 (day, time and location TBA). Both exams are closed books. However, you can bring one double-sided page (8.5"x11") of notes for the midterm and two pages for the final. You can also use a calculator or a laptop computer to do calculations. The exams are composed of problems with a degree of difficulty similar to those included in the homeworks.

Any regrading requests on midterm and final must be submitted in writing no later than one week after the announcement of the exam results. The request must explain clearly and in detail why the grade should be corrected. The entire exam will be reviewed in all cases.

I expect you to bring your name plate to class. **The use of computers during class is not permitted.**

REVIEW SESSIONS

There are five review sessions planned to help you review material for the exams. The dates are as follows:

1. Saturday, October 15, 2011 (week 4)
2. Saturday, October 22, 2011 (week 5)
3. Saturday, November 5, 2011 (week 7)
4. Saturday, November 12, 2011 (week 8)
5. Saturday, December 3, 2011 (week 10)

In Evanston, the sessions will take place from 10:00 am to 12:00 pm (room TBA, Jacobs center)

In Chicago, the sessions will take place from 2:00 PM to 4:00 PM (room TBA, Wieboldt)

These sessions will be held by a Ph.D. student who will solve some additional problems, typically taken from old exams, and answer questions about the homework.

COURSE OUTLINE

Below you find a list of the topics that we cover and the corresponding readings in the textbook organized by weeks. This organization is tentative since the pace and depth of discussion of different topics is tuned to class interest.

Week 1

- 0. Course Overview
- 1. Monetary Policy, Interest Rates, Inflation, and Exchange Rates

Readings

Chapter 1
Mishkin, chapter 14.
Note on “The Deposit Multiplier”

Week 2

- 2. The Evolution of the International Monetary System
- 3. Introduction to Foreign Exchange Markets

Chapter 2
Chapter 5 (112-129)

Week 3

- 4. Exchange Rate Forecasting
- 5. Exchange Rate Volatility
- 6. Hedging Exchange Rate Risk
- 7. Forward Contracts and Futures Markets

Chapter 6 (157-164)

Chapter 8 (198-199, 211-216)
Chapters 5 (129-134), 7 (172-179),
8 (200-203)

Week 4

- 7. Forward Contracts and Futures Markets (continuation)
- 8. Covered Interest Rate Parity

Chapter 6 (139-145)

Week 5

- Synthetic Forward Rates
- 9. Foreign Currency Options

Chapter 7 (180-184), 8 (203-205)

Week 6

- 9. Foreign Currency Options (continuation)
- Midterm

Week 7

- 10. Case Studies

Chapter 9 (242-244)

Week 8

- 11. International Parity Conditions

Chapter 6 (145-157)

Week 9

- 12. International Valuation

Chapter 16
Nusantara Communications Case
Cross-Border Valuation (Harvard
Teaching Note)

Week 10

- 14. Case Study: Lufthansa
- 15. Capital Flows and the Current Account

Chapter 3