

NORTHWESTERN UNIVERSITY

Kellogg School of Management

INTERNATIONAL FINANCE

EMP 71

SPRING 2008

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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 will 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, the evaluation of international investments, exchange rate forecasting, the anatomy of currency crises, and current developments in the international financial system.

TEXTBOOK AND CASE PACKET

The textbook for the course is *International Financial Management*, 4th Edition, by Cheol Eun and Bruce Resnick, McGraw-Hill- Irwin, 2005. This text is used as a complement, not as a substitute for the lectures.

The case packet contains copies of the overhead slides used in the lectures as well as copies of Chapters 15 and 16 of Frederic Mishkin's *The Economics of Money, Banking and Financial Markets*, Addison-Wesley, 6th Edition, 2003. These chapters are useful to review the Macroeconomics background material covered in the first week.

Supplementary materials will be 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.

FIRST ASSIGNMENT

Read the first chapter of *International Financial Management*, on Globalization and the Multinational Firm.

EVALUATION

The grade in this course is based on Homework Problems (30%), Class Participation (10%), and a Final Take-Home Exam (60%).

Homework problems will be solved in groups of up to five students. Homework assignments are announced in class. Late homeworks are not accepted.

There are tutorial sessions to go over practice problems. Dates and times of these sessions are announced in class.

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

You are expected to bring your name plate to class. **The use of computers in class is not permitted.**

COURSE OUTLINE

Below you will find a list of the topics that we will 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 will be tuned to class interest.

Week 1 (1.5 hours)

- 0. Overview of the Course
- 1.1 Monetary Policy and the Banking Sector

Week 2 (3 hours)

- 1.2 Monetary Policy, Interest Rates, Inflation and Exchange Rates
- 2. The Evolution of the International Monetary System
- 3. Introduction to Foreign Exchange Markets

Week 3 (3 hours)

- 4. Exchange Rate Volatility
- 5. Hedging Exchange Rate Risk
- 6. Forward Contracts

Week 4 (3 hours)

- 7.1 Covered Interest Rate Parity
- 7.2 Synthetic Forward Rates
- 8. International Valuation

Week 5 (3 hours)

- 9. Foreign Currency Options
- 10. Case Studies: Merck and Zenith
- 11. International Parity Conditions
 - The Forward as a Predictor of the Future Spot
 - Uncovered Interest Parity

Week 6 (1.5 hours)

- 11. International Parity Conditions
 - Purchasing Power Parity and the Real Exchange Rate
- 13. Forecasting Exchange Rates

Textbook Readings

Chapter 1
Mishkin, Chapters 15, 16.
Note on “The Deposit Multiplier”

Chapter 2 (25-35)
Chapter 5 (106-122)

Chapter 8 (192-194, 207-211)
Chapters 5 (123-127), 8 (194-198)

Chapter 6 (132-141)

Chapter 16

Chapter 7 (172-181), 8 (198-203)

Chapter 6 (141-149)

Chapter 6 (141-149)

Chapter 6 (149-155)