Course title: International Finance
Course code: ECON 3007 BASP
Programs offering course: Business and Culture, Economics and Culture, Language and Culture
Language of instruction: English
U.S. semester credits: 3.00
Contact hours: 45.00
Term: Spring 2020

Course Description

This course focuses on understanding the theory of international finance and its real-world applications. After a brief definition of “finance” (What do we mean by it? What’s the difference between the trade and monetary aspects of international economics?), the fundamental concepts of the course will be introduced through the topics of national income accounting and the Balance of Payments. A theory of flexible exchange rate determination will then be presented, along with its implications for macroeconomic performance in terms of output, money supply, price levels, etc. We will then proceed to analyze the hedging tools to minimize the financial risks in the international financial system, and to debate over which of both systems, flexible or fixed, is better. International macroeconomic policy and coordination will be our next topic, and we will finish by turning our attention to developing countries and analyzing their specific types of financial policies and crisis.

Learning Objectives

By completing this course, students will:

- Identify and apply the precise language of international finance.
- Discuss the institutions of international finance and assess the impacts and responses of governments, markets and firms.
- Examine exchange rate determination and assess the pressures affecting currency values by hedging strategies using derivative products.
- Analyze and evaluate international financial borrowing and investment opportunities and the instruments used in international trade.
- Apply knowledge of business to confront new situations and propose solutions which can withstand critical examination into the area of international finance.
- Apply new tools that combine technology and finance in the international market such as blockchain.

Course Prerequisites

3 semesters of college-level micro- or macroeconomics. 1 semester of calculus recommended.

Methods of Instruction

The delivery method consists of a mix of lectures, cases, exercises, guest lecturers and individual coaching. Class debates and participation with a positive and collaborative attitude will be a requirement and fundamental to the learning process.

Assessment and Final Grade

1. Midterm Exam 20%
2. Final Exam 20%
3. Final Project (Written Assignment & Oral Presentation) 20%
4. Quizzes 20%
5. Class Participation (Including WEF Activity) 20%
   TOTAL 100%

Course Requirements
Midterm Exam

Final Exam

The midterm and final exam will consist of a combination of problems and essay questions covering all the contents seen in class: lectures, cases, newspaper articles and class discussions.

Final Project (Written Assignment & Oral Presentation)

In teams of 3, students must research and prepare a final project. The topic can be freely chosen by students but it must fulfill two criteria: a) it must be approved by the professor, b) it must combine at least three of the topics discussed throughout the course (financial globalization, international monetary system, balance of payments, foreign exchange markets, international parity relationships, management of exposure, long-term financing and international cash management).

Only a power point is required (see grading criteria below) as the basis for a 20-minute presentation.

Presentations will be graded with the following criteria:

- Depth of the research and the analysis
- Effort shown to relate to the things explained during the course
- Delivery (clarity, coherence and concision, no reading)
- Capacity to answer the questions posed by the professor
- Appropriateness/effectiveness of slides (not large paragraphs, but main ideas, charts, etc.)
- Quality and pertinence of sources consulted and cited.

The final project will be presented by students on the previous-to-last day of class. Students may divide the work among themselves, but each group member must be prepared to explain any item of the project. It will be randomly decided by the professor the part of the project to be presented by each student.

Quizzes

Each student will have to complete two quizzes to check that they are doing the compulsory readings.

Class Participation (Including WEF Activity)

Class participation is an important part of the course.

Attendance

CIEE Barcelona Attendance Policy Students are expected to attend all scheduled class sessions on time and prepared for the day’s class activities. CIEE does not distinguish between justified or unjustified absences, whether due to sickness, personal emergency, inevitable transport delay and/or other impediments. You are considered responsible of managing your own absences. Please keep in mind that exams, paper submission dates, presentations and any other course work deadlines cannot be changed.

No academic penalty will be applied if students miss up to 3 class sessions. If students miss up to 5 class sessions, students’ final course grade will drop 5 points out of 100 on the CIEE grade scale for each additional absence beyond 3 (for example a 95 will become a 90 if they reach the 4th absence, and an 85 if they reach the 5th absence). Students will automatically fail the course if they miss more than 20% of total class hours (i.e. if they exceed 5 absences).

For students who miss up to 20% of the total course hours due to extenuating circumstances, the Academic Director may allow for exceptions to the local attendance policy based on documentation such as proof of bereavement, religious observances, hospitalization etc.

Students arriving more than 10 minutes late to the class will be considered absent for a day.

N.B. Course schedule is subject to change due to study tours, excursions, or local holidays. Final schedules will be included in the final syllabus provided to students on site.

Weekly Schedule

Week 1

Class: 1.1 Introduction to the Course

Reading: Eun-Resnick, chapter 1 (pp. 5-8)
Globalization of the World Economy

Globalized financial markets, the EU and trade liberalization.
Reading: Eun-Resnick, chapter 1 (pp. 8-18)

Week 2
Class: 2.1 The International Monetary System I
Bretton Woods System, flexible ER regime and current ER arrangements
Reading: Eun-Resnick, chapter 2 (pp. 31-40, 56-58)

Class: 2.2 The International Monetary System II
European monetary system and recent financial crises
Reading: Eun-Resnick, chapter 2 (pp. 40-56)

Week 3
Class: 3.1 Balance of Payments I
Balance of payments account and identity
Reading: Eun-Resnick, chapter 3 (pp. 62-73 and appendix 3A)

Class: 3.2 Balance of Payments II
The Dollar and the Deficit. BP exercises and problem solving
Reading: Eun-Resnick, chapter 3 (pp. 74-75)

Week 4
Class: 4.1 Financialization: Causes and Consequences
Financial culture, tax heavens and speculative finance
Reading: Murillo, chapter 5 ("Financial globalization", pp. 8-29)
Quiz 1

Class: 4.2 World Economic Forum: Towards a Sustainable Financial Globalization
Activity: each team will take the role of an organization and prepare for debate
Reading: research on the mission and goals of the organization assigned to you

Week 5
Class: 5.1 Market for Foreign Exchange I
Market participants and spot FX trading
Reading: Eun-Resnick, chapter 5 (pp. 113-128)

Class: 5.2 Market for Foreign Exchange II
The forward market and exchange-traded currency funds
Reading: Eun-Resnick, chapter 5 (pp. 129-135)

Week 6
Class: 6.1 Market for Foreign Exchange III
The Turkish Lira crisis
Week 7
Class: 7.1 International Parity Relationships I
Interest rate parity
Reading: Eun-Resnick, chapter 6 (pp. 140-147)

Class: 7.2 International Parity Relationships II
Purchasing power parity and the Fisher Effect
Reading: Eun-Resnick, chapter 6 (pp. 148-157)

Week 8
Class: 8.1 Futures and Options on Foreign Exchange I
Currency futures market
Reading: Eun-Resnick, chapter 7 (pp. 174-180)

Class: 8.2 Futures and Options on Foreign Exchange II
Currency options market; American vs. European options
Reading: Eun-Resnick, chapter 7 (pp. 181-192)

Week 9
Class: 9.1 Management of Transaction Exposure
Forward and money market hedge; hedging via lead and lag
Reading: Eun-Resnick, chapter 8 (pp. 198-211)

Class: 9.2 Management of Economic Exposure
Determinants and tools of operating exposure
Reading: Eun-Resnick, chapter 9 (pp. 226-239)

Week 10
Class: 10.1 Management of Translation Exposure
Translation methods; balance sheet and derivatives hedge
Reading: Madura chapter 17 (pp. 244-257)
Quiz 2

Class: 10.2 Guest Speaker (TBA)

Week 11
Class: 11.1 Long-term Financing I
Debt denomination, debt maturity and fixed vs. floating debt
Reading: Madura chapter 18 (pp. 551-560)

Class: 11.2 Long-term Financing II
Parallel loans and interest rate swaps
Reading: Madura chapter 18 (pp. 556-558 and 561-565)
Week 12
Class: 12.1 International Cash Management
Centralized cash management and the effective yield
Reading: Madura, chapter 21 (pp. 617-626)

Class: 12.2 Presentation of Final Project

Week 13
Class: 13.1 Final Exam

Course Materials
Readings

Online Resources
www.economist.com - analytical articles on world economic/political affairs
www.nyse.com - New York Stock Exchange
www.nasdaq.com - Nasdaq Stock Exchange
www.eurunion.org - EU guide for Americans
www.ft.com - Financial Times, international news, economy, corporate activities, shares
www.oecd.org - Organisation for Economic Co-operation and Development
www.londonstockexchange.com - London Stock Exchange
www.imf.org - International Monetary Fund
www.nytimes.com - World news, critical editorials
www.worldbank.org/ - World Bank
www.stockex.co.uk - Stock Ex Financial Market News
www.tse.or.jp/english/ - Tokyo Stock Exchange
www.forex.com - FOREX trading platform.