

University of Texas- Dallas
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Course Syllabus

International Finance

Course Description

Given the globalization of the business sector and the integration of the economies of the world, a clear understanding of the impact of the macro economy and the business sector is vital to the success of any person entering into the workforce. This class is designed to expand your understanding of global economics. The purpose is that you develop a theoretical and practical knowledge exchange rates and foreign exchange markets; exchange rate policy; macroeconomic coordination; developing countries and the problem of third world debt; and global capital markets.

Text and Other Readings

The text for this course is International Economics: Theory and Policy (6th, 7th or 8th edition) by Paul Krugman and Maurice Obstfeld. The Wall Street Journal is highly recommended.

Class Policies

- Students are expected to be diligent in the pursuit of their studies and regular in their attendance. Class attendance is not required; however, failure to attend is done at your own risk. You are responsible for any announcements made or information given during class, no excuses will be accepted.
- ATTENDANCE during presentations, videos, and guest speakers is mandatory, the cost of missing one without a university excused absence is ONE LETTER GRADE.
- The exams will be based on lecture material and required readings. Some of the lecture material will not be in the readings. (The professor will not provide copies of class notes).
- Exam Schedule Problems. **NO MAKE UP EXAMS WILL BE GIVEN.** Instead, with advance notice, students may take a comprehensive final exam to replace one exam grade. If you miss more than one exam, you will receive a zero for the additional missed exam. There are no exceptions. **THE OPTIONAL COMPREHENSIVE EXAM CANNOT BE MADE UP IF MISSED.** Plan on taking the optional comprehensive exam at your own risk.
- Cell Phones & Pagers. Due to receiving numerous complaints from students, this policy is necessary. If you allow your cell phone or beeper to audibly ring or beep in class, you will be penalized. The first time is a warning, after that you lose points. The penalty starts at two points and will double every time thereafter. If you answer the phone in class, no warning will be granted and you will be immediately assessed the penalty.

University Policies (<http://provost.utdallas.edu/home/syllabus-policies>)

Office Hours

By appointment

Examinations

There will be two exams: a midterm and a final. There will be one major project. The exams may be a combination of multiple choice, short answer, and problems. There will be no makeup exams. A comprehensive final will serve as a makeup exam for any missed exam.

Fund Report- Advanced Writing Requirement and Communication component

The International Stock Portfolio is designed not only to teach you the fundamentals of international finance but also to develop your communication skills- both written and oral. You will write weekly reports to your manager outlining the progress of your fund and your decisions. You will also write a final fund report similar to fund reports mailed to you by major Mutual Fund groups. You will then present your fund to your class- who will be playing the role of potential investors. You will learn to address three different audiences- your boss, your investors, and future investors.

Grades

- The final project is worth 20 percent of your grade. (4/28)
- Weekly reports are worth 10 percent of your grade. (3/2)
- Presentation of Fund is worth 10 percent of your grade. (last weeks of class)
- The midterm is worth 30 percent of your grade. (2/17)
- The final will be worth 30 percent. The final will not be comprehensive. (4/26)
- Comprehensive- make up final will be given during final exam week at scheduled time

e-learning and Grade Management

e-learning is used in this class to check your progress in the class. If you do not have a computer at home or prefer to work on campus, you may do this at the library or in the many computer labs on campus. Grades are only posted through e-learning.

Disclaimer

This syllabus is tentative and can be changed. All changes will be announced in class.

Topical Outline

The following is the general order of the material we will cover in class:

Comparative Advantage and Politics and Trade

Exchange Rate Determination

Interest Rates, Money & Exchange Rates

Purchasing Power Parity

Relationship Between Exchange rates and Output- Fixed Exchange Rates

Floating Exchange Rates

Global Capital Markets

Developing Countries and International Debt

Presentations

International Currency Portfolio Project

Objectives:

The primary objective of this assignment is to give you some hands on experience with international financial markets. You have just landed a job as manager of international currency fund. The fund has \$1,000,000 in assets. You are to use the international currency markets to invest your money to maximize the short-term gains. You must **begin investing by the third week of class** (January 31st) and sell all your investments during the week of April 4th. The goal is maximize your portfolio value.

This is your future you must make a positive return on your investment. This is a short-term project given to you by your bosses to see if you are ready for a larger fund.

You are to buy and sell foreign currencies. You may invest in any international market for which you can obtain daily quotes. You must invest in three currencies and must make at least ten transactions. You may buy and sell as many times as you wish. **Each transaction will cost you 1% of the value purchased, in US dollars.** You will be graded on your overall portfolio and your justifications.

Responsibilities

You are expected to:

1. Be prepared to discuss in class your decisions, including macroeconomic, financial markets, and any other news events that might affect your decisions. You should concentrate on international risk exposure and return consequences as well as other relevant information to justify your investment.
2. **Invest in at least three different markets. And you must make at least ten transactions (not counting the first group of currencies you buy or the last you sell) during the 9 weeks. (This is the minimum.)**

You may invest in any international market for which you can obtain daily quotes. You may buy and sell as many times as you wish. **Each transaction (a transaction is defined as a buy or sell) will cost you 1% of the trade value.** Remember currency must be bought and sold in **local currency** but your portfolio records should show **dollar returns**. You will have to translate all gains back into dollars. You will be graded on your overall portfolio and your justifications.

3. At no given time can more than **25%** of your portfolio be in U.S. dollars.

Research:

You should read articles in magazines like Money, Forbes, the Wall Street Journal, and regional/country business magazines to enhance your understanding and enable you to make substantive decisions. You should research the country you are investing in.

Weekly Performance and Trading reports: THESE ARE TO BE TURNED IN WEEKLY (Each weekly report will be worth progressively more. It is expected that you will learn and improve your reports from the feedback you receive.) The audience for this is your manager. Remember your boss is busy so your report must be concise; yet, still contain all the necessary information. (Should be limited to one page) These will be graded weekly so you can improve and make corrections. This is a learning process, which means the last report should be significantly better than the first.

1. Track the performance of your portfolio each week in a spreadsheet
2. Outline why you chose to buy or sell each specific currency. Each transaction requires a justification.
3. Maintain your portfolio on a spreadsheet on a weekly basis outlining current returns and any transactions made.
4. Each weekly report should have a one-page maximum progress report.
5. A Purchase report outlines all purchases made throughout the semester.
6. A Sales report outlines all sales made throughout the semester.

Final Fund Report should: (This should read like a prospectus from a mutual fund) (You should turn in a draft for feedback)

1. Include all weekly reports
2. Present a brief final analysis, supporting your choices of currencies, as well as your overall portfolio evaluation over the trading period. Stress the reasons for your success/failure.
3. Should address total return expected vs. achieved, risk characteristics evaluated, and other key

market or sector specific factors that affected (positively or negatively) the return and risk positions.

Presentation:

You will make a 10 minute presentation to the class. The class will play the role of potential investors and you must convince them to invest in your fund. A laptop and projector will be provided for your use. The presentations will occur the last 3 weeks of class.

Information you should consider before investing:

Collect background and financial information on the company you are purchasing. Use this information to support your decision and include any information you gather in your reports

Collect background information on the country including:

1. The country's resources: labor force (population, education, literacy rate, etc.) and natural resources (agriculture- climate, mineral deposits, petroleum reserves, location, etc.)
2. Stage of industrialization: share of work force in agriculture vs. manufacturing; type of industry such as labor intensive (e.g., textiles and apparel, footwear) or capital intensive (e.g., steel, automobiles, chemicals); stage of development (e.g., per capita income)
3. Economic dependency: the political-economic ties to other countries such as historical colonial ties or membership in a multinational grouping of countries.
4. Political stability: The type of political system (e.g., military government, dictatorship, democracy, socialism) and the likelihood that political events might disrupt the performance of the economy.
5. The type of exchange rate mechanism your country is using (fixed, floating, or crawling peg). Understand why the country uses that particular system. If there has any major appreciation or depreciation of the currency, try to identify why it occurred.