NANYANG TECHNOLOGICAL UNIVERSITY
NANYANG BUSINESS SCHOOL

BF2207 International Finance

Course Aim

This course is an introduction to international finance. The course serves to equip students with the ability to analyse and make managerial decisions in the context of a multinational firm.

Course Description

Many companies engage in cross-border business and they face important financial questions beyond those found in a purely domestic setting. This course endeavours to provide the basic understanding and tools to evaluate, finance, and manage international business. The issues and tools discuss are particularly relevant to highly open economies, such as Singapore, where companies will engage in international business.

In this course, we will describe the global financial markets that facilitate international business and explain the key economic linkages among them. In the context of international finance, understanding foreign exchange rates is crucial. We will therefore explain exchange rates and those factors that affect the rates. We will then examine the challenges for companies created by unexpected changes in exchange rates. We will also discuss how these firms should manage their exposure to currency fluctuations. Lastly, we will explore areas of international corporate finance like capital budgeting and financing from the perspective of multinational companies.

In particular, the first half of the course discusses foreign exchange markets, and introduces the theories that explain the relationships among inflation, interest rates, and exchange rates. The second half of the course focuses on how multinational corporations manage their exchange rate risk, and how they make sound investment and financing decisions factoring exchange rate fluctuations. The course also encourages discovery learning. In fact, students strengthen their discovery skills when analysing the recent financial crises and contemporary global financial issues.

Course Learning Outcome

By the end of this course, students will be able to:

1. Describe the international financial environment in the context of international fund flows, international financial markets, and international financial agencies, and how they affect multinational corporations.
2. Discuss the relationships among inflation, interest rates, and exchange rates using the interest rate parity, the purchasing power parity and the international Fisher effect theories.
3. Explain exchange rate determination, and how firms can manage their exchange rate risk and capitalize on anticipated exchange rate movements.
4. Analyse multinational capital budgeting to enable firms to make informed investment decisions.
5. Compare long-term debt financing and short-term borrowing to minimize the firms' cost of funds.
6. Analyse and propose managerial responses to a financial crisis or contemporary global financial issue.

Course Assessments

Components	**Marks**	**Individual / Group**
C1: Assignments	10	Individual
C2: Participations	10	Individual / Group
C3: Projects	5	Group
C4: TEL Activities	10	Individual
C5: Quizzes	15	Individual
Final examination	50	Individual
Total	**100**	

Proposed Weekly Schedule

Week (Week beginning)	Topics	Learning Outcomes
1.	Introduction to International Finance	1. To identify management goal and organizational structure of a Multinational Corporation (MNC). 2. To describe the key theories that justifies international business. 3. To explain the common methods used to conduct international business. 4. To describe a model for valuing a MNC.
2.	International Flow of Funds	1. To explain the key components of the balance of payments. 2. To explain the growth in international trade activity over time. 3. To explain how international trade flows are influenced by economic factors and other factors. 4. To explain how international capital flows are influenced by country characteristics. 5. To describe the agencies that facilitates the international flow of funds.
3.	International Financial Markets	1. To describe the background and corporate use of the foreign exchange market, international money market, international credit market, international bond market and international stock markets.

Week (Week beginning)	**Topics**	**Learning Outcomes**
4.	Exchange Rate Determination	1. To explain how exchange rate movements are measured. 2. To explain how the equilibrium exchange rate is determined. 3. To explain factors that determines the equilibrium exchange rate. 4. To explain the movement in cross exchange rates. 5. To explain how financial institution attempt to capitalize on anticipated exchange rate movements.
5.	Currency Derivatives#	1. To explain how forward contracts are used to hedge based on anticipated exchange rate movements. 2. To describe how currency futures contracts are used to speculate or hedge based on anticipated exchange rate movements. 3. To explain how currency option contracts are used to speculate or hedge based on anticipated exchange rate movements.
6.	Exchange Rate Behaviour	1. To explain the conditions that will result in various forms of international arbitrage and the realignments that will occur in response. 2. To explain the concept of interest rate parity (IRP). 3. To explain the variation in forward rate premiums across maturities and over time.

Week (Week beginning)	Topics	Learning Outcomes
7.	Exchange Rate Behaviour (Continue)	4. To explain the purchasing power parity (PPP) theory and its implications for exchange rate changes. 5. To explain the International Fisher effect (IFE) theory and its implications for exchange rate changes.
ζ.	**Recess**	
8.	Exposure Management	1. To explain the relevance of an MNC's exposure to exchange rate risk. 2. To explain how transaction exposure, economic exposure and translation exposure can be measured. 3. To explain the techniques commonly used to hedge payables and receivables. 4. To explain limitations of hedging.
9.	**E-Learning Week**	1. To explain how an MNC hedges its transaction exposure.

Week (Week beginning)	**Topics**	**Learning Outcomes**
10.	Exposure Management (Continue)	1. To explain how an MNC hedges its economic and translation exposure.
11.	International Capital Budgeting	1. To explain the capital budgeting analysis of an MNC's subsidiary versus its parent. 2. To describe how multinational capital budgeting can be applied to determine whether an international project should be implemented. 3. To explain how multinational capital budgeting can be adapted to account for special situations such as alternative exchange rate scenarios or when subsidiary financing is considered. 4. To explain how the risk of international projects can be assessed.
12.	Project Presentation	1. To describe lessons learnt from historical economic and financial crises. 2. To recommend proactive and reactive measures for crises.
13.	**Midterm Quiz** Revision	