



# Executive MBA Program

## NBAE 5540 International Finance

### Fall 2009

Professor Gordon Bodnar  
*SAIS, Johns Hopkins University*

### Course Description

This course will cover issues related to economies in the global environment, international financial markets, and international financial management. The first part of the course covers some basic issues of the macroeconomy and issues related to balance of payments between national economies. The second part of the course focuses on the international financial markets, specifically the foreign exchange market, the international money markets, and the conditions that define their interrelation. The third part of the course considers issues associated with the operation of a firm in the global environment, including exchange rate risk management, international portfolio investing and international project evaluation and financing. The discussion in the course will combine both the theoretical framework of how to think about the problem and both empirical evidence and discussion of firms' real world activities. The course style is mostly lecture. It evaluates students through problem sets and case studies, a midterm quiz, and an end of course exam.

### Course Grading

Each student will be responsible for a midterm take-home quiz and an in-class course exam. The take-home midterm quiz will be made available after the third weekend (September 12 – 13) and must be completed by September 17. The course exam will be SUNDAY OCTOBER 11, 2009. Students will also be responsible for handing in four homework assignments as part of a study group. The final grade will be determined by the following weights:

Midterm Quiz	20%
Course Exam	40%
4 Homework Assignments	30%
Class (Group) Participation	10%

The participation portion of the grade is based upon general class participation and group participation as evaluated by your study group members. To promote classroom participation, discussion is evaluated only on involvement and quality rather than on the particular position taken.

## Course Materials

A course pack will be provided for the non-textbook readings of the course. Other handouts, such as problem sets, cases, case setups, and class notes will be provided as necessary throughout the course. Students will also receive a copy of the course slides at the beginning of each session. Much of this material can also be downloaded from the course website.

The textbook provided for this course is:

International Financial Management, 5<sup>th</sup> Edition, by Eun and Resnick, Irwin, 2009.

Chapters from the first text are listed in the syllabus as IFM and provide useful background and discussion of the topics covered in class. The answers for the end of chapter questions for this text are available on my course website (download page). In addition it is assumed that students are familiar with their corporate finance textbook.

In addition to the texts and other readings, avid students of international finance may wish to stay on top of current issues by following additional sources on information. Recommended sources include:

The Economist - good economic analysis of occasional related issues.

Financial Times - good international company and capital markets section.

Student subscription rates are available for some of these publications on course website.

## Groups

Students will work in groups on course projects. Groups will be the study groups for the term pre-assigned by the EMBA program. At the end of the course, group members will be asked to confidentially evaluate the participation of the other group members as an attempt to externally control such behavior. This evaluation will make up the majority of the students student's class participation score and with general class participation play a role in deciding borderline grading cases.

## Exam Policy

The take-home quiz is open book but the course exam is closed book, although I will provide an equation sheet for the exam, as the memorization of economic and financial formulas is not the goal of this course. Students need only bring a calculator and writing utensils to course exam. *Absence from the exam must be arranged in advance and a make-up exam will only be offered in advance of the actual exam slot unless there is a confirmed medical excuse.*

## Homework Assignments

Homework assignments are an important part of any finance course. To learn it you have to try it. Homework assignments are to be done in groups and submitted (1 submission per group) via email to me by the time and date indicated on the class outline. The assignments are meant as exercises to practice some of the material and can be taken as representative of possible exam questions. I have set the submission dates as the Wednesday before the next classes meet. This way I can get them evaluated and scored and returned to you by the time class meets that weekend. Please include your study group number in the file name when you submit the assignments so I can avoid confusion. Answers will be provided.

## Contact

I will be available for questions and office hours at some point during each weekend. I will be available after class periods or during the lunch breaks or after dinner on Saturday evenings. Outside of these times the best way to contact me will be email. During the week, if I am in the office, I typically to respond to emails within a few hours. My email address is [bodnar@jhu.edu](mailto:bodnar@jhu.edu). If you wish to speak to me in person, my office number is (202) 663 - 7731. My fax number is (202) 663 – 7718. I encourage you to contact me if you have questions on the materials.

I have a webpage that I will use as a place to make available electronic copies of lecture notes (if you missed them being handed out in class), problems sets, case questions and their solutions as well as and other sources of information regarding the class.

The address is <http://finance.wharton.upenn.edu/~bodnarg>

Follow the links for Exec NBAE 5540 on the left hand side. This site also contains copies of the syllabus, class outline, and a class announcement page. It will be operational by the first day of class. The web based course material can be found on a restricted download page. The access info for the download page will be distributed at the beginning of the first class.

## Course Outline

Readings: The required (non-textbook) readings can be found in the course pack (CP). IFM refers to *International Financial Management*, by Eun and Resnick. Many articles plus the extra readings/materials can be found on the course webpage (W) or on-line (OL).

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Lecture	Title and Reading Assignments	Homework assignment
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### Weekend 1: 8/15-16

#### I. International Macroeconomy

##### Lecture 1      A. Macroeconomics

1. [Macroeconomics](#), Wikipedia.com (CP, W)
2. [US Federal Reserve, Monetary Policy and the Economy](#), US FED Reserve Board (CP, W)

Other helpful info: [US Monetary Policy – Q&A about the FED](#), San Francisco FED (W)

Optional readings: History of macroeconomics, O. Blanchard (W)  
The Global Financial Crisis of 2007–2009, C. Jones (W)

##### Lecture 2      B. Balance of Payment Issues

1. IFM Chpt 3
2. [Is the US Current Account Deficit Sustainable?](#), R. Cooper, CESifo Forum, (CP, W)

For Fun (OL only):

US Bureau of Economic Analysis –US Trade /BOP data (<http://www.bea.gov/international/index.htm>)

Practical Debate:

[The Overstretch Myth](#), Levey and Brown, *Foreign Affairs*, March/April 2005 (W)

[How Scary Is the Deficit?](#) Setser and Roubini, *Foreign Affairs*, Jul/Aug 2005 (W)

#### II. International Financial Markets

##### Lecture 3      A. Exchange Rate Basics and the Real Exchange Rate

1. IFM: Chpt 4 and 5 (pp. 107 – 113)
2. *All About the Foreign Exchange Market in the United States*, FRBNY, Chpts [2](#) and [5](#) (CP, W) or OL at: <http://www.newyorkfed.org/education/addpub/usfxm/>)
3. [Big Mac Index](#), *Economist* (CP, W) or OL (<http://www.economist.com/markets/bigmac/index.cfm>)

Extra Analysis:

[A Prism into the PPP Puzzles](#) – Parsley and Wei (W)

**Assignment #1 (W):** Due 8/26 11:59pm EDT (email to [bodnar@jhu.edu](mailto:bodnar@jhu.edu))

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### Weekend 2: 8/29-30

##### Lecture 4      B. International Currency Markets and the International Parity Conditions

1. IFM: Chpt. 5 (remainder) and 6 (pp. 138 – 143)
2. *All About the Foreign Exchange Market in the United States*, FRBNY, Chpts [3](#), [4](#), and [7](#) (CP, W) or OL at: <http://www.newyorkfed.org/education/addpub/usfxm/>)
3. [Triennial Survey of Foreign Exchange and Derivatives Market Activity 2007](#) BIS 2007, (CP, W) or OL at <http://www.bis.org/publ/rpfx07pdf>)

##### Lecture 5      C. Exchange Rate Behavior, Efficiency and Forecasting

1. *All About the Foreign Exchange Market in the United States*, FRBNY, Chpt. [11](#) (CP, W) or OL at <http://www.newyorkfed.org/education/addpub/usfxm/>)
2. Technical Trading info – assorted web pages (CP, W)

Advanced optional reading:

[The Economics of Exchange Rates](#), M Taylor, JEL (1995) (W)

Lecture 6

#### **D. International Monetary System**

1. IFM: Chpt 2
2. *All About the Foreign Exchange Market in the United States*, FRBNY, Chpt. 10 (CP, W) or OL at <http://www.newyorkfed.org/education/addpub/usfxm/>

#### Good Review of Global Imbalances

1. [World Survey](#), *Economist*, Sept 22, 2005 (excerpts) (W)

**Assignment #2 (W):** Due 9/9 11:59pm EDT (email to [bodnar@jhu.edu](mailto:bodnar@jhu.edu))

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#### **Weekend 3: 9/12-13**

### **III. The Impact of Exchange Rates on the Firm**

Lecture 7

#### **A. Corporate Exposures to Exchange Rates**

1. IFM Chpt 8 pp. 192 – 193, Chpt 9 pp. 221 – 232
2. [Corporate Exposures to Exchange Rates](#), classnote (CP or W)
3. "On the Measurement of Operating Exposure to Exchange Rates: A Conceptual Approach," Flood and Lessard, *FM* 1986. (CP)
4. Identifying, Measuring and Hedging Currency Risk at Merck, J. Lewent and A. Kearney, *JACF*, 1990 (CP).

#### Extra Reading on Translation Exposure:

1. FAS #52-Measuring the Performance of Foreign Operations, B Carsberg 1983. (CP)  
IFM: Chpt 10

Lecture 8

#### **B. Managing Transaction Exposure**

1. [Techniques for Managing Economic Exposure](#)," classnote (CP, W)
2. IFM: Chpt 8 (pp. 194 – 209)

Lecture 9

#### **C. Managing Operating Exposure**

1. IFM: Chpt 9 pp. 232 – 238
2. Wharton 1998 Survey of Financial Risk Management by U.S. Non-Financial Firms, (CP, W) or OL at <http://finance.wharton.upenn.edu/~weiss/research>

**Take-Home Midterm Quiz (Lectures 1 – 6) (to be done by 9/17 11:59pm EDT)**

**Assignment #3:** Due 9/23 11:59pm EDT (email to [bodnar@jhu.edu](mailto:bodnar@jhu.edu))

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#### **Weekend 4: 9/26-27**

### **IV. International Financing and Investing**

Lecture 10

#### **A. Investing Internationally**

1. IFM Chpt 15

Lecture 11

#### **B. Cost of Capital for International Projects**

1. IFM: Chpt 17
2. Globalization of Capital Markets and the Cost of Capital: The Case of Nestle, R. Stutz, *JACF*, Fall 1995 (CP)

Lecture 12

#### **C. Capital Budgeting for International Projects**

1. IFM Chpts 18, 21 and 16

**Assignment#4 (W) – Due 10/7 11:59pm EDT (email to [bodnar@jhu.edu](mailto:bodnar@jhu.edu))**

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#### **Weekend 5: 10/10-11**

Lecture 13

**D. Global Financing**

1. IFM: Chpts 11, 12, and 13
2. Guidelines for Global Financing Choices, Lessard and Shapiro, *MCFJ*, 1983 (CP)

**Review Session**

[Sample Exams and Solutions \(W\)](#)

10/11

**Course exam (2 hrs in class)**

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Lecture notes will be distributed at the beginning of each lecture.

A course webpage with course information and postings is available at

<http://finance.wharton.upenn.edu/~bodnarg>

Please follow the links for NBAE 5540.

Access info for restricted download page

Username: nbaeif

Password: bodnar