

**274-693A – International Finance I****Prof. Sergei Sarkissian****McGill University****Fall 1999*****INFORMATION AND REQUIREMENTS***

Class Time:	THU 18:00-21:00
Class Location:	SSB 179
Office Hours:	30 min before and after class and by appt.
Office Location:	SBB 592
Phone Number:	398-4876
E-mail:	ss@management.mcgill.ca

**Materials:**

1. Textbook: *Multinational Business Finance*, D.K. Eiteman, A.I. Stonehill and M.H. Moffett, 8th edition, 1998 (required).
2. Course Packet available at the McGill Copy Center (required).
3. Miscellaneous readings primarily from *The Wall Street Journal*, *The Financial Times*, or *The Economist* handed out in class (optional).

**Course Description and Prerequisites:**

International finance is the science of cross-country, cross-currency money management and the study of the structure and process of institutions that use global capital. This course gives a survey of international financial markets and a comprehensive introduction to the foundations of global finance including but not limited to spot and forward exchange markets, international monetary system, currency and interest rate risk management. Such topics as the European Monetary Union and financial crises will also be discussed. In short, in this class you will learn how firms and individuals operate in a global environment and manage their capital flows, and you will be able to recommend ways to make this system more profitable.

The modern financial world is increasingly reliant on quantitative analysis and computer and telecommunication technology. Good quantitative skills and knowledge of personal computers and major business application software, e.g., Excel, are necessary to succeed in today's global competitive environment. Therefore, to feel comfortable in this class you should have already taken basic finance and calculus classes and acquired some computer proficiency.

## **Grading:**

There are four unequally weighted graded components in this class:

Participation	10%
Group Case Assignments	10%
Midterm	30%
Final	50%

## **General Policy:**

Your physical presence in the class will guarantee you only half of your participation grade. The remaining half should come from your active but constructive participation.

Group Case Assignments are due at the beginning of class. No late assignments will be accepted. Groups should have between four and six people. The group composition must be known by the end of the second week of classes and remain unchanged after that.

Midterm is closed book. However, you are allowed to have a one-page “cheat-sheet”. Don’t forget to bring your calculators. A make-up option of the midterm is not available. If your absence was unavoidable, the percentage of the final exam portion in your course grade will increase to 80%.

Final is also closed book. It will cover the entire material presented in the course. Again, you are allowed to have a one-page “cheat-sheet”. Calculators will be necessary. A make-up option of the final exam is possible ONLY if you provide me with a strong evidence of your inability to take the test on the scheduled day.

A re-grading will be considered if a written and sign petition is handed to me within a week from receiving the exam/course grade. It will be a “symmetric” procedure; that is, the new grade may be higher or lower than the old one, or remain the same.

There is no homework. However, you should attempt to understand and solve as many problems at the end of each chapter as you can. I will not collect and grade your solutions but working on those problems will definitely help you on exams.

### *Course Schedule*

<b>Date</b>	<b>Topic</b>	<b>Readings</b>
Sep. 2	Introduction	
Sep. 9	Determination of Exchange Rates	Reading 1
Sep. 16	Balance of Payments	Chapter 3
Sep. 23	Spot Exchange Market	Chapter 4
Sep. 30	Forward and Futures Market	Chapter 4
Oct. 7	Currency Options <b>Case 1 due:</b> Madesco Inc.	Chapter 6 Readings 4, 5
Oct. 14	Parity Conditions	Chapter 5
Oct. 21	Parity Conditions	Chapter 5
Oct. 28	Review, <b>MIDTERM</b>	
Nov. 4	Interest Rate Exposure	Chapter 10 Reading 6
Nov. 11	Currency Swaps <b>Case 2 due:</b> BC Hydro	Chapter 10 Readings 7, 8
Nov. 18	International Monetary System and EMU <b>Case 3 due:</b> The Finnish Markka	Chapter 2 Readings 2, 3
Nov. 25	Financial Crises	Readings 9, 10
Dec. 2	Review	

## *The content of the “Reading Packet”*

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1. A. Shapiro, “Determination of Exchange Rates,” in *Multinational Financial Management*, 6<sup>th</sup> ed., Prentice-Hall Pub., USA, pp.49-84
2. C. Swann, “Swings and Roundabouts of a Single Currency,” *Financial Times*, July 30, 1999, p.25
3. F. Mishkin, “International Experiences with Different Monetary Policy Regimes,” NBER Working Paper #7044, 1999
4. D. DeRosa, “Payoff Patterns at Expiration,” in *Options on Foreign Exchange*, Probus Pub., Canada, pp.55-87.
5. M. Dowling, “Madesco Inc.,” *Cases in International Finance*, John Wiley Pub., USA, pp.55-87
6. J. Macfarlane, D. Ross, J. Showers, “The Interest Rate Swap Market: Yield Mathematics, Terminology and Conventions”, Salomon Brothers Inc., 1985
7. “Note on Foreign Currency Swaps,” *Harvard Business School* publication #292043
8. “The Walt Disney Company’s Yen Financing,” *Harvard Business School* publication #287058
9. G. Kaminsky, “Currency and Banking Crisis: The Early Warnings of Distress,” Board of Governors of the Federal Reserve System International Finance Discussion Paper #629, 1998
10. F. Mishkin, “Lessons from the Asian Crisis,” NBER Working Paper #7102, 1999