

IV. Grading

Exams (60%)

There will be two exams. Both will be individual, closed-book and closed-note. You may bring a non-programmable calculator. I will distribute sample questions and conduct in-class review sessions before the exams.

The first exam will be on Tuesday, March 10. The second exam will be on Thursday, April 16. The second exam is not cumulative. Only the material not tested in the first exam will be included.

Each exam will be worth 30% of your final grade. Make-up exams will only be given for family or medical emergencies. Prior notice and hard evidence are required.

Any regrade requests must be submitted in writing two weeks after the exams are returned and must be accompanied by the Regrade Request form and Statement of Honesty in Regrade Request form. Requests for regrading must be very specific. I retain the right to regrade your entire exam so your exam score may fall as a result.

Quizzes/Homework (10%)

10 short quizzes (5-10 questions each) will be given based on material covered in class. Questions will be multiple-choice and will be similar to the multiple-choice questions in the exams. I encourage you to work in groups. Yet, each student should submit his/her own document by uploading it in Canvas.

Case Study and Presentation (30%)

There will be group presentations at the end of the semester (Tuesday, April 21 and Thursday, April 23). Each group will choose a topic related to international finance (for example a multinational corporation, a country, or a current events issue). Your group will create a slide deck with a max of 10 slides including tables and charts, and font size at least 20 points to accompany your presentation. I will provide further guidelines to help with your analysis. Presentations will be 10 minutes per group.

Form groups of 4-5 students and register your group on Canvas (maximum of 12 groups). The last day to pick a topic and form groups is on Monday, March 2. I will not arbitrate any group-related issues that may arise.

Class Participation and Attendance (0%)

Attendance is not mandatory, but highly encouraged. If you decide to attend classes, I expect you to contribute to productive and insightful discussions in the classroom.

Extra-Points (?%)

I might ask you to work on an in-class pop-up quiz on the material covered over the last 2 classes. These quizzes will not be repeated and extra-points will be given only to students who were in class.

V. IT Devises Policy

The use of Laptops, Tablet PCs, hybrid PCs, iPads, Smartphones, etc. is allowed, unless differently indicated. Since attendance is not mandatory, I expect you to be professional.

VI. The Honor Code

Students are bound by The Honor Codes of the University and the Cox School of Business. Please visit http://smu.edu/studentlife/studenthandbook/PCL_05_HC.asp for the University Honor Code and <http://www.smu.edu/Cox/CurrentStudents/GraduateStudents/HonorCode> for the Cox School Honor Code.

VII. Accommodations Provided by University Policy

Accommodations for disabilities, religious observance and extracurricular activities follow University Policy. Please meet with me at the beginning of the semester to discuss potential issues.

Disability Accommodations: Students needing academic accommodations for a disability must first register with Disability Accommodations & Success Strategies (DASS). Students can call 214-768-1470 or visit <http://www.smu.edu/Provost/SASP/DASS> to begin the process. Once approved and registered, students will submit a DASS Accommodation Letter to faculty through the electronic portal DASS Link and then communicate directly with each instructor to make appropriate arrangements. Please note that accommodations are not retroactive and require advance notice to implement.

Religious Observance: Religiously observant students wishing to be absent on holidays that require missing class should notify their professors in writing at the beginning of the semester, and should discuss with them, in advance, acceptable ways of making up any work missed because of the absence (<https://www.smu.edu/StudentAffairs/Chaplain/ReligiousHolidays>).

Excused Absences for University Extracurricular Activities: Students participating in an officially sanctioned, scheduled University extracurricular activity should be given the opportunity to make up class assignments or other graded assignments missed as a result of their participation. It is the responsibility of the student to make arrangements with the instructor prior to any missed scheduled examination or other missed assignment for making up the work. (See 2018-2019 University Undergraduate Catalogue)

Student Academic Success Programs: Students needing assistance with writing assignments for SMU courses may schedule an appointment with the Writing Center through Canvas. Students wishing support with subject-specific tutoring or success strategies should contact SASP, Loyd All Sports Center, Suite 202; 214-768-3648; <https://www.smu.edu/sasp>.

VIII. Course Schedule [Subject to Changes]

Date		Topic	Deliverables
21-Jan	T	Why International Finance?	
23-Jan	TH	FX and the International Monetary System	
28-Jan	T	Spot Markets	Homework #1
30-Jan	TH	Triangular Arbitrage	
4-Feb	T	Forwards and Futures	Homework #2
6-Feb	TH	Interest Rate Parity	
11-Feb	T	IRP with Transactions Costs	Homework #3
13-Feb	TH	Purchasing Power Parity	
18-Feb	T	Parity Relationships	Homework #4
20-Feb	TH	Balance of Payment	
25-Feb	T	Forecasting FX	Homework #5
27-Feb	TH	Forward and Money Market Hedging	Groups
3-Mar	T	Options Market Hedging	Homework #6
5-Mar	TH	REVIEW SESSION	
10-Mar	T	EXAM 1	Exam 1
12-Mar	TH	International Banking	
17-Mar	T	Spring Break	
19-Mar	TH	Spring Break	
24-Mar	T	International Debt Financing	Homework #7
26-Mar	TH	Swap Markets	
31-Mar	T	International Equity Financing and Investment	Homework #8
2-Apr	TH	Cost of Capital	
7-Apr	T	International Capital Budgeting	Homework #9
9-Apr	TH	International APV and Real Options	
14-Apr	T	REVIEW SESSION	Homework #10
16-Apr	TH	EXAM 2	
21-Apr	T	Group Presentations	
23-Apr	TH	Group Presentations	

IX. Concept guide and recommended chapter readings

1. Why International Finance?
 - a. Trends in international finance (1.1, 1.2 pp 2-8, 1.5)
 - b. Multinational corporations (1.3 pp 11-14)
2. Foreign Exchange (FX) and the International Monetary System
 - a. FX Market (2 intro, 2.1)
 - b. Reading exchange rate quotations (2.2 pp 57-61)
 - c. Appreciation vs depreciation (2.5)
 - d. History of the international monetary system (5.4 pp 191-193)
 - e. Exchange rate regimes (5.1, more detail in 5.3-5.5)
 - f. Economics of FX: goods vs currency
3. Balance of Payments (4)
 - a. BOP Concepts
 - b. Double-entry bookkeeping
 - c. Current vs capital account
 - d. Deficit vs surplus
 - e. Official reserve account
 - f. BOP identity
 - g. Economics of BOP and net imports
 - h. Economics of BOP and FX
 - i. Players in international markets (1.4)
4. Spot and Forward Markets
 - a. Bid-ask spread (2.3 pp 66-71)
 - b. Currency arbitrage
 - c. Cross-rates
 - d. Cross-rate bids and asks
 - e. Triangular arbitrage (2.2 pp 63-66)
 - f. Forward markets (3.4 pp 105-110)
 - g. Forward discount vs premium (3.5)
 - h. Forward cross-rates
 - i. Long vs short positions
 - j. Currency futures vs forwards
 - k. Daily resettlement of futures
5. Interest Rate Parity (6.1)
 - a. Law of one price
 - b. Calculating unknowns using IRP arbitrage portfolio
 - c. Covered vs uncovered IRP
 - d. Carry trade, forward premium puzzle (7.6 pp 288-290)
 - e. Covered interest arbitrage portfolio
 - f. Multi-year IRP
 - g. IRP with transactions costs: forward bids and asks (6.2 pp 236-237)
 - h. IRP with transactions costs: different borrowing and lending rates
 - i. Exact vs approx IRP (Appendix 2.1)
 - j. Economics of interest rate differentials and currency appreciation/depreciation
6. Purchasing Power Parity
 - a. Nominal vs real inflation (8 intro, 8.1)
 - b. Absolute PPP (8.2)
 - c. Economics of inflation differentials and currency app/depreciation
 - d. Deviations from PPP (8.3 pp 319-323, 8.4, 8.5)
 - e. Exact vs approximate PPP
 - f. Real exchange rates (8.9)
 - g. International Fisher relation
 - h. Fisher equation
 - i. Forward expectations parity and the unbiasedness hypothesis (7.2)
 - j. Connecting all parities(10.1)
7. Forecasting FX
 - a. Market uncertainty and expectations (3.2, 11.2 pp 452-453)
 - b. Sources of short-run vs long-run changes in FX
 - c. Efficient market and random walk hypothesis
 - d. Forecasting techniques (10.2)
8. Forward and Money Market Hedging
 - a. What is transaction exchange risk (3 intro, 3.1)

- b. Payable vs receivable currency exposures
 - c. Forward or futures market hedge: for payables and receivables (3.3, 20.2)
 - d. Money market hedge: for payables and receivables (6.4)
 - e. Cross-currency money market hedge
9. Options and Options Market Hedging
- a. Currency options: puts and calls (20.3 pp 881-884)
 - b. Option payoff profiles
 - c. Option market hedge: for payables and receivables (20.4 pp 888-899)
10. International Banking (11.4)
- a. Bank runs and capital adequacy
 - b. Illiquidity vs insolvency
 - c. Shadow banking
 - d. 2008 financial crisis (1.2 pp 8-10)
 - e. Eurocurrencies
 - f. LIBOR
11. International Debt Financing
- a. Global sources of funds (11 intro, 1.1, 11.3)
 - b. Centralized vs decentralized, fixed vs floating (11.2)
 - c. Dual currency bonds
 - d. Term structure and expectations theory, relate to parity conditions and forecasting FX (6.5)
 - e. Internal rate of return (IRR)
 - f. All-in-cost (AIC) principle of debt issuance (11.6)
 - g. AIC components
 - h. Absolute vs multiplicative credit spreads
12. Swap Markets
- a. Interest rate swaps (21 intro, 21.1, 21.2)
 - b. QSD
 - c. Arranging interest rate swaps
 - d. Capital market comparative advantage
- e. Currency swaps (3.4 pp 111-115, 21.3 pp 945-955)
13. International Equity Financing and Portfolio Investment
- a. International equity markets (12 intro, 12.1 pp 501-509)
 - b. Cross-listing (12.1 pp 510-511, 12.3)
 - c. Ways to invest in international equity (12.1)
 - d. Risk and variance (Appendix 7.2)
 - e. Risk and return: Sharpe ratios (13.1)
 - f. International diversification (13.2)
 - g. Systematic vs idiosyncratic risk (7.3)
 - h. Optimal portfolio allocation
 - i. Risk in foreign currency returns
14. Cost of Capital
- a. Domestic vs world CAPM (13.4 pp 567-572, 13.5)
 - b. CAPM as cost of capital
 - c. Segmented vs integrated markets (13.6)
 - d. Sourcing international capital: home bias and cost of capital
 - e. Other models: APT, Fama-French (13.7)
15. International Capital Budgeting
- a. Net present value
 - b. Modigliani-Miller capital structure
 - c. Adjusted net present value (15.1)
 - d. Project with debt financing: APV with interest tax shields
 - e. International APV: converting foreign currency cash flows using parity conditions
 - f. International APV: calculating cost of capital using parity conditions
 - g. Weighted average cost of capital (16.1)
 - h. IRR and parity conditions
 - i. Real options and replicating portfolios