

SEMESTER AT SEA COURSE SYLLABUS

Discipline: Business/Finance

Fall 2008

COMM 470Z: Topics in Finance (International Investments)

Upper Division

Faculty Name: Frank Warnock

Suggested Pre-requisites: Intro to Macroeconomics, Intro to Investments (recommended). Some comfort with introductory economics is necessary. A basic investments course is helpful but not indispensable. A willingness to participate in case discussions is vital.

COURSE DESCRIPTION

This case-based course will analyze investing in currencies and international bonds, equities, and derivatives. We will take a macro-finance perspective, focusing on countries rather than individual securities. A macro-finance approach to international investment requires knowledge of international macroeconomics, so we will begin the course by covering macro models that will allow you to make informed global investment decisions. A workhorse framework will be Mundell's Unholy Trinity. Every country must grapple with the Trinity, and assessing which leg of the Trinity will give way—and one must—will prove very useful in a macro approach to international investments. Over the course of the semester, we will use case studies to analyze the Trinity when assessing potential investments in the debt, equity, and currency markets of Brazil, South Africa, India, Malaysia, Hong Kong, China, and Japan.

COURSE OBJECTIVE

Upon completion of this course, the student should have a working knowledge of essential macroeconomic concepts and models and be able to *apply* that knowledge to making decisions international investment decisions on bonds, equities, and currencies. In addition, the student will gain a basic understanding of currency and interest rate derivatives (forwards, futures, options, and swaps).

COURSE MATERIALS

Course Text

C.S. Eun and B.G. Resnick, International Financial Management (2007, 4th edition, McGraw-Hill Irwin, ISBN #: 978-0-07-299686-9)

This is a widely used intermediate-level text on international financial management. We will cover roughly one-half of the book in this course. The half that we will not cover is also very useful and is a good reference for any undergraduate business major.

In addition to the course textbook, there is a course pack with case studies and technical notes. These include:

Case Studies: Brazil 2003: Inflation Targeting and Debt Dynamics (HBS 9-704-028); Inflation Targeting in South Africa (UVA-BP 0507); China's Renminbi: "Our Currency, Your Problem"? (HKU710); India on the Move (HBS-9-703-050); Malaysia: Capital and Controls (HBS 9-702-040); Vietnam: A New Tiger Earns Its Stripes (UVA-G-0618); Hong Kong's Financial Crisis 1997-1998 (HKU031)

Technical Notes: A User's Guide to the IIP and BOP (UVA-BP-0523); A Technical Note on the IS/LM and AS/AD Models (UVA-F-1541); A Technical Note on the Open Economy IS/LM Model (UVA-BP-0528); Exchange Rate Models (UVA-BP- 0496); Capital Controls (HBS 9-702-082); An Early Warning System of Currency Crises (UVA-BP-0497)

To facilitate learning about the actual returns available to investors in many of the countries we will visit, Excel files with financial market data will be provided for each case.

Textbook Companion Web Site (<http://mhhe.com/er4e>)

The publisher of our required text maintains a companion Web site that provides a range of resources and activities to aid and motivate the student throughout the course.

- Self-assessment tests. Students can test their knowledge of the material in the book by taking multiple-choice tests on any chapter or combination of chapters. After the student responds, the program explains the answer and directs the student to specific sections in the book for additional study. Students may also test their knowledge of key terms using the flashcards.
- Excel Software. The publisher's website includes many excel application for portfolio finance.
- Finance Around the World, an interactive map that allows you to select a list of resources from your favorite regions of interest around the world.
- Corporate Finance Online. Students can access this Web tool from MHI. This site provides over 54 exercises for 27 key corporate finance topics, allowing students to complete challenging exercises and discussion questions that draw on recent articles, company reports, government data, and other Web-based resources.

TOPICAL OUTLINE OF COURSE

Lecture # and Date	Lecture Topic – Key Questions	Reading Assignment
A1. August 31	<u>Currencies and Exchange Rate Models</u> Introduction to currencies and models of exchange rate determination	Eun and Resnick (ER) Chapters 2 and 5 pp. 25-58, 106-131. Technical Note: Exchange Rate Models (UVA-BP- 0496)
A2. Sept 2	<u>Currencies and Exchange Rate Models</u> Are exchange rates predictable?	ER Chapter 6, pp. 132-161.
A3. Sept 4 (arrive Brazil)	<u>Brazil and Its Macro Policies</u> Inflation targeting (IT) is sweeping the world. For a country like Brazil, is this the appropriate policy? If Brazil stays with an IT regime, what is the outlook for its bonds, equities, and currency? And if it abandons the IT regime?	ER Chapter 3, pp. 59-77 Brazil 2003: Inflation Targeting and Debt Dynamics (HBS 9-704-028)
A4. Sept 12	<u>Theory: The Three-Paned Model</u> How do macroeconomic policies and international capital flows impact a country's GDP, interest rates, and exchange rate (and, hence, its bond, equity, and currency markets)?	A Technical Note on the IS/LM and AS/AD Models (UVA-F-1541) A Technical Note on the Open Economy IS/LM Model (UVA-BP-0528)
A5. Sept 14	<u>Theory: The Three-Paned Model</u> (cont)	
A6. Sept 17 (arrive Namibia)	<u>South Africa's Macro Policies</u> Should South Africa change its macroeconomic policies? You have to decide whether to go long or short the South African rand, South African bonds, and South African equities. How would the status quo or a change of course impact your decisions?	Case Study: Inflation Targeting in South Africa (UVA-BP 0507)
A7. Sept 24 (arrive S. Africa)	<u>South Africa's Macro Policies</u> (cont)	
A8. Oct 3	<u>Review South Africa</u> <u>Review the Three-Paned Model</u> <u>Introduce Mundell's Unholy Trinity</u>	

A9. Oct 5	<u>Restricting International Investment: Capital Controls</u>	Capital Controls (HBS 9-702-082)
A10. Oct 7	<u>International Debt and Equity Markets: The Facts</u>	ER Chapters 12 and 13, pp. 293-336.
A11. Oct 10	<u>China Case</u> As we approach Asia, China looms large. From an international finance perspective, a question that is at the top of the agenda in China—and one that will influence how almost every other country in the region—is how much will China allow the renminbi to appreciate? And based on your views on this, how should we best position our international portfolios?	China's Renminbi: "Our Currency, Your Problem"? (HKU710)
A12. Oct 12 (arrive India)	<u>India Case</u> India has seen a remarkable transformation from the Permit Raj to one of the strongest emerging market countries in the world. In this class we will analyze this transformation. Is the transformation enough to make you comfortable investing in India?	India on the Move (HBS-9-703-050)
A13. Oct 19	<u>China and India Wrap Up</u>	
A14. Oct 21 (arrive Malaysia)	<u>Malaysia and Capital Controls</u> What caused the Asian financial crisis? Why did Malaysia impose capital and currency controls? How would this affect your investments in Malaysia? What would cause other countries to institute capital controls?	Malaysia: Capital and Controls (HBS 9-702-040)

A15. Oct 15 (arrive Vietnam)	<u>Managing Capital Inflows: Vietnam</u> Vietnam has emerged from its Communist past to find itself awash in capital inflows. Do these flows bring more good than harm, and how should Vietnam manage them? Your answer will influence your willingness to invest in Vietnam.	Vietnam: A New Tiger Earns Its Stripes (UVA-G-0618)
A16. Nov 4 (arrive Hong Kong)	<u>Hong Kong's Response to a Speculative Attack</u> Hong Kong, an international financial center, prides itself on allowing the free flow of capital. But the attacks on its currency and equity market in 1998 tested its resolve. As an international investor, do you agree with the HKMA's response to the situation?	Hong Kong's Financial Crisis 1997-1998 (HKU031)
A17. Nov 12 (arrive Japan)	<u>Japan</u>	<p>"Japan: Key challenges to sustaining Japan's improved economic performance," (OECD Economic Survey, 2006)</p> <p>Greg Mankiw, "Memo to Tokyo—Cut Taxes, Print Money" (Fortune, Vol. 139 (1) pg. 30.</p> <p>Paul Krugman, "Babysitting the Economy," Slate www.slate.com/id/1937.</p> <p>Data: Japan Investments.xls</p>
A18. Nov 19	<u>Japan (cont.)</u>	Japan readings (cont)
A19. Nov 20	<u>Early Warning Systems of Currency Crises</u>	An Early Warning System of Currency Crises (UVA-BP-0497)
A20. Nov 23	<u>Early Warning Systems of Currency Crises (cont)</u>	
A21. Nov 25 (arrive Hawaii)	<u>Early Warning Systems of Currency Crises (cont)</u>	
A22. Nov 28	<u>Derivatives</u>	ER Chapters 7 and 14, pp. 162-191, 337-355. Lecture Notes (to be posted)
A23. Nov 30	<u>Derivatives (cont)</u>	
A24. Dec 4	EXAM	

FIELD COMPONENT:

Three faculty-led field practica are recommended but not required. In Hong Kong I will lead a visit to the HKMA, the main actor in our Hong Kong case study. In Vietnam, I will lead a visit to the stock exchange, which more than tripled in value in the past few years before plummeting this year. In South Africa, Professor Veronica Warnock and I will lead a visit to the Kuyasa Fund, a Cape Town-based housing microlender we work with; this will provide an unparalleled opportunity to see how international macroeconomic conditions impact ground-level financial development work. Moreover, investing in microlending institutions is a fascinating new alternative investment.

Students must also keep an **International Investments Journal** recording and reflecting on observations of how macroeconomic policies, exchange rate fluctuations, and the global economic environment impact people's views on investing in the equities, bonds, and currency of *every port we visit*. You will bring these observations together in a coherent **International Investments Journal Paper**, a 5- to 10-page (12-point font, double-spacing, one-inch margins) paper that must be submitted for grading before we reach Hawaii and must have observations for each port from Brazil to Japan (eight ports). Of course, the best journals will not only be coherent but will also include observations that are related to the major themes that we cover in the course. Are the views you are recording consistent with any model we have learned?

METHODS OF EVALUATION:

Case Write-ups – 20 percent

Class Participation – 20 percent

International Investments Journal Paper – 20 percent

Final Exam – 40 percent

Class participation is vital to this course, so we will replicate a b-school classroom experience as much as possible, with fixed seating and name tent cards. If you are uncomfortable contributing in class, you can do one of two things: Use this as a learning experience or avoid this course.

You will be asked to participate each and every day, but participation is most important during case discussions. On days when we have a case study, the students will be expected to prepare prior to the class meeting and the discussion those days will be entirely student-driven. If you participate strongly (e.g., provide intuition, show you have thought carefully about the case, engage a colleague in a useful debate, etc.) you will receive positive participation points that day. If I call on you during a case discussion and you have nothing to offer, you will earn negative participation points. At the end of the term, participation points will be summed up and class participation grades will be assigned. Note that as an added incentive to prepare ahead of time, case write-ups—answers to discussion questions for each case—will be submitted prior to the beginning of class; late case write-ups will not be accepted. Because we all have instances in which something comes up, you may drop your lowest case write-up grade and you may, without penalty, decline to participate once (and only once for the entire semester) during a case discussion.

The UVA Honor Code is in effect for this course, but I fully expect you to work in teams to prepare for case discussions. All written work—including your case write-ups—must be your own, but preparation in “learning teams” is acceptable and expected.

REQUIRED TEXTBOOKS

AUTHOR: Eun and Resnick
TITLE: International Financial Management
PUBLISHER: McGraw-Hill Irwin
ISBN #: 978-0-07-299686-9
DATE/EDITION: 2007, 4th edition

Additionally, a course packet of case studies and technical notes will be required.

RESERVE LIBRARY LIST

AUTHOR: Brealey, Myers, and Allen
TITLE: Principles of Corporate Finance
PUBLISHER: McGraw Hill-Irwin
ISBN #: 978-0-07-328696-9
DATE/EDITION: 2008/9th edition

AUTHOR: Frank J. Fabozzi and Franco Modigliani
TITLE: Capital Markets: Institutions and Instruments
PUBLISHER: Prentice Hall
ISBN #: 0-13-067334
DATE/EDITION: 2003/3rd edition

AUTHOR: Mankiw, N. Gregory
TITLE: Macroeconomics
PUBLISHER: Worth
ISBN #: 0-7167-6213-7
DATE/EDITION: 2007/6th edition

AUTHOR: Krugman, P.R., and M. Obstfeld
TITLE: International Economics
PUBLISHER: Pearson Addison Wesley
ISBN #: 0-321-27884-4
DATE/EDITION: 2006/7th edition