

SEMESTER AT SEA COURSE SYLLABUS

Discipline: Business

Fall 2008

COMM 472Z: International Finance

Upper Division

Faculty Name: Frank Warnock

Suggested Pre-requisites: Intro to Macroeconomics, Intro to Microeconomics. A willingness to participate in case discussions is vital.

COURSE DESCRIPTION AND OBJECTIVE

Today all businesses are global. Events occurring thousands of miles away can move markets at home and in even remote corners of the earth. While the global marketplace offers richer opportunities to managers, it also exposes them to more challenges and risks. Understanding the global business environment is therefore a prerequisite for effective leadership. The International Finance course is designed to help students develop frameworks for analyzing both opportunities and risks when operating in the global business environment.

The course applies the ideas and methodologies of economics to the analysis of the business environment in which firms operate and managers make decisions. International Finance expands students' knowledge of global economies and markets in three dimensions. First, it delivers insights and tools for analyzing markets in the global economy by building rigorous economic theories and frameworks. Second, it provides tools and concepts for analyzing the performance of national economies by focusing on the economic and political forces that shape production, trade flows, capital flows, interest rates, exchange rates and other variables that define the global economic landscape. Third, it applies the tools of international trade and finance to broaden students' perspectives on how globalization affects the performance and strategies of nations and firms.

This case-based course is intended to be thought-provoking and managerially relevant; it is not designed as one predominantly focused on modeling mechanics or the memorization of economic principles. I will challenge you, as future managers, to think about the implications of alternative national economic policies and their impact on business decisions and various business stakeholders. As a part of the course, we will also bring to the discussion current events and emerging trends in the business environment. Upon completion, you should have a working knowledge of essential economic concepts and models and be able to *apply* that knowledge to understand the complex global business environment.

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. In COMM 472Z we will cover roughly one-half of the book. The half of the text that we will not cover is on portfolio finance 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: Jaguar plc 1984 (HBS-9-290-005); 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)

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.
- *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.

Some students may wish to contextualize the issues we discuss in class by viewing short videos that speak to the application of economic theory.

- *Streaming Video: Economics USA,* Educational Film Center, 2002. <http://www.learner.org/resources/series79.html>. This instructional video series offers 28 high-quality introductory economics lessons using video footage of important historical events and economic commentaries. Free, but registration is required; simply click on the VoD icon, and the site will take you through a simple registration process that gives

you access to the series.

TOPICAL OUTLINE OF COURSE

Class # and Date	Lecture Topic – Key Questions	Reading Assignment
B1. Sept 1	<u>Introduction</u> What's special about international finance? Introduction to currencies and crises	Eun and Resnick (ER) Chapters 1-2, pp. 4-58.
B2. Sept 3	<u>Real Exchange Rates</u> How do exchange rate changes affect a firm's bottom line? <u>Intro to Balance of Payments</u> The BOP Accounts BOP crises Does the U.S. current account deficit weigh on the dollar?	Jaguar plc. 1984 HBS-9-290-005 ER Chapter 3, pp. 59-76. A User's Guide to the IIP and BOP (UVA-BP-0523)
B3. Sept 6 (arrive Brazil)	<u>Brazil</u> Brazil is one of many countries that has instituted an inflation targeting monetary policy. Is this the best strategy for the country? How does it influence Brazilian companies and multinationals operating there?	Brazil 2003: Inflation Targeting and Debt Dynamics (HBS 9-704-028)
B4. Sept 13	<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?	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)
B5. Sept 15	<u>Theory: The Three-Paned Model (cont)</u>	
B6. Sept 18 (arrive Namibia)	<u>South Africa's Macro Policies</u> Should South Africa change its macroeconomic policies? How would the status quo or a change of course impact South Africans, South African companies, and multinationals operating in South Africa?	Inflation Targeting in South Africa (UVA-BP 0507)
B7. Sept 25 (arrive S. Africa)	<u>South Africa's Macro Policies (cont)</u>	

B8. Oct 4	<u>Currencies</u>	ER Chapters 5-6, pp. 106-161. Exchange Rate Models (UVA-BP-0496)
B9. Oct 6	<u>Managing Economic Exposure to Exchange Rate Changes</u> How do currency movements impact firms? How do firms manage that risk?	ER Chapter 9, pp. 222-243.
B10. Oct 8	<u>Foreign Direct Investment</u> Why do firms invest overseas? Political risk and FDI Enron vs. Bombay: What mistakes did Enron make in India?	ER Chapter 16, pp. 394-421.
B11. Oct 11	<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?	China's Renminbi: "Our Currency, Your Problem"? (HKU710)
B12. Oct 13 (arrive India)	<u>India and FDI</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.	India on the Move (HBS-9-703-050)
B13. Oct 20 (arrive Malaysia)	<u>Managing Capital Inflows: Malaysia</u> Malaysia presents one way of managing capital inflows—the extensive use of capital controls. What are the pros and cons of the Malaysian way?	Malaysia: Capital and Controls (HBS 9-702-040) Capital Controls (HBS 9-702-082)
B14. Oct 27	Review Day	
B15. Oct 29 (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?	Vietnam: A New Tiger Earns Its Stripes (UVA-G-0618)

B16. Nov 5 (arrive Hong Kong)	<u>Managing Capital Inflows: Hong Kong</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. What is a country to do under such a situation?	Hong Kong's Financial Crisis 1997-1998 (HKU031)
B17. Nov 13 (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_GEM.xls</p>
B18. Nov 20	<u>Japan (cont.)</u>	Japan readings (cont)
B19. Nov 21	<u>Exchange Rate Models</u>	<p>Exchange Rate Models (UVA-BP-0496)</p> <p>ER Chapter 6, pp. 132-161.</p>
B20. Nov 24	<u>The Full Model</u>	<p>A Technical Note on the IS/LM and AS/AD Models (UVA-F-1541)</p> <p>A Technical Note on the Open Economy IS/LM Model (UVA-BP-0528)</p>
B21. Nov 26 (arrive Hawaii)	<u>The Unholy Trinity</u>	Readings TBA
B22. Nov 29	<u>Applications of the Unholy Trinity to International Finance</u>	Readings TBA
B23. Dec 1	<u>Applications of the Unholy Trinity to International Finance (cont)</u>	Readings TBA
B24. Dec 6	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 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. In Vietnam, students interested in FDI should consider joining Professor Kaplan's visit to Nike.

Students must also keep an **IF Journal** recording and reflecting on observations of how macroeconomic policies, exchange rate fluctuations, and the global economic environment impact stakeholders (consumers, businesses) *in every port we visit*. You will bring these observations together in a coherent **IF 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.

METHODS OF EVALUATION:

Case Write-ups – 20 percent
Class Participation – 20 percent
IF Journal Paper – 20 percent
Final Exam – 40 percent

Class participation is vital to this course. As such, on-board 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: 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