

## 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. In addition, you will make pitches on the debt, equities, and currency markets of South Africa, India, 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, 4<sup>th</sup> edition, McGraw-Hill Irwin, ISBN #: 978-0-07-299686-9)

This is a widely used intermediate-level text on international financial management. We will not cover this text, but you can use it as a reference.

The bulk of the material for this course will be contained in 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); Kinyuseisaku: Monetary Policy in Japan (HBS-9-708-017)

**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)

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.

## TOPICAL OUTLINE OF COURSE

<b>Lecture # and Date</b>	<b>Lecture Topic – Key Questions</b>	<b>Reading Assignment</b>
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	<b>South Africa Presentations</b>	
A9. Oct 5	<u>International Capital Flows</u>  <u>Restricting International Investment: Capital Controls</u>	A User's Guide to the IIP and BOP (UVA-BP-0523)  Capital Controls (HBS 9-702-082)  ER Chapter 3, pp. 59-76.

A10. Oct 7	<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)
A11. Oct 10	<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)
A12. Oct 12 (arrive India)	<u>India early 2007: 'Quiz' and Analysis</u>	
A13. Oct 19	<b>India Presentations</b>	
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 28 (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	Hong Kong's Financial Crisis 1997-1998 (HKU031)

	tested its resolve. As an international investor, do you agree with the HKMA's response to the situation?	
A17. Nov 12 (arrive Japan)	<b>China Presentations</b>	
A18. Nov 19	<u>Japan</u> After evaluating Japan's economic performance during the last two decades and assessing the BOJ's actions during the 'lost decade', how do you think policymakers will address Japan's economies woes? How does this shape your investment recommendations?	Kinyuseisaku: Monetary Policy in Japan (HBS-9-708-017)  Optional: "Japan: Key challenges to sustaining Japan's improved economic performance," (OECD Economic Survey, April 2008)
A19. Nov 21	<b>Japan Presentations</b>	
A20. Nov 23	<u>International Debt and Equity Markets: The Facts</u>	ER Chapters 12 and 13, pp. 293-336.
A21. Nov 25 (arrive Hawaii)	<u>Derivatives</u>	ER Chapters 7 and 14, pp. 162-191, 337-355.  Lecture Notes (to be posted)
A22. Nov 28	<u>Derivatives (cont)</u>	
A23. Nov 30	<u>Practice Exam Case</u>	
A24. Dec 4	EXAM	

### FIELD COMPONENT:

Two 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 a 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**. The journal can consist either of

(a) 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 *in at least 5 of the ports we visit* (from Brazil to Japan), or

(b) your views of how, over the next 12 to 24 months, equity prices, bond prices, and the value of the currency are likely to evolve in at least 4 of Brazil, South Africa, India, Malaysia, Vietnam, Hong Kong, China, and Japan.

Whether you choose option (a) or option (b), you must 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.

### **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 final exam will consist of analyzing a country case study. You will receive the case study—but not the exam questions—a day before the exam, so that you have time to familiarize yourself with the case before entering the exam room. At the exam, you will be given the exam questions and will have 75 minutes to prepare answers. No computers or notes are allowed in the exam; you can only bring the case study, with absolutely no writing on it (i.e., you cannot write anything on the case study).

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 TEXTBOOK**

AUTHOR: Eun and Resnick  
TITLE: International Financial Management  
PUBLISHER: McGraw-Hill Irwin  
ISBN #: 978-0-07-299686-9  
DATE/EDITION: 2007, 4<sup>th</sup> 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: 2008/9<sup>th</sup> edition

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

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

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