

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 bring to the discussion current events and emerging trends in the business environment. Indeed, you will give presentations in which you give policy advice to the governments of South Africa, India, Japan, and China. In short, upon completion of this course 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 you can use this text as a reference; we will only cover a few chapters from it.

The bulk of the materials for this course are delivered through 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: Building “Capitalism with Socialist Characteristics” (HBS-9-706-041); 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)

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?	Jaguar plc. 1984 HBS-9-290-005
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</u> (cont)	
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</u> (cont)	
B8. Oct 4	<u>South Africa Presentations</u>	
B9. Oct 6	<u>International Capital Flows</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.
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: Building "Capitalism with Socialist Characteristics" (HBS-9-706-041)
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)	India Presentations	
B14. Oct 27	<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	Malaysia: Capital and Controls (HBS 9-702-040)

	way?	
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>China Presentations</u>	
B18. Nov 20	<u>Japan</u> How do you evaluate Japan's economic performance during the last two decades? How do you assess the BOJ's actions during the 'lost decade' and moving into the early 2000s? How should policymakers address Japan's economies woes?	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)
B19. Nov 22	<u>Japan Presentations</u>	
B20. Nov 24	<u>Currency Hedging Instruments: Forwards, Futures, and Options</u>	ER Chapters 5 and 7 Exchange Rate Models (UVA-BP-0496)
B21. Nov 26 (arrive Hawaii)	<u>Managing Currency Exposure (1): Transaction Exposure to Exchange Rate Changes</u> Firms can be exposed to currency fluctuations due to contractual obligations in foreign currencies. How can this currency exposure be managed?	ER Chapter 8
B22. Nov 29	<u>Managing Currency Exposure (2): Economic Exposure to Exchange Rate Changes</u> Firms can be exposed to currency fluctuations due to their impacts on operating cash flows and the currency	ER Chapter 9

	composition of its assets and liabilities. How can such currency exposure be managed?	
B23. Dec 1	<u>Practice Exam Case</u>	
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**. The journal can either consist of

- (a) recording and reflecting on observations of how macroeconomic policies, exchange rate fluctuations, and the global economic environment impact stakeholders (consumers, businesses) *in at least 5 of the ports we visit* (from Brazil to Japan), or
- (b) economic policy recommendations for 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 **IF Journal Paper** (or, if you choose (b), an **IF Policy 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. The best IF Journal Papers will not only be coherent but will also include observations that are related to the major themes that we cover in the course. The best IF Policy Papers will present and provide justification (what would it address? how would stakeholders--whether businesses, consumers, foreign investors, etc--be impacted?) for the economic policies (fiscal, monetary, etc) that you, as an advisor to each government, would recommend be implemented going forward.

METHODS OF EVALUATION:

- Case Write-ups – 20 percent
- Class Participation – 20 percent
- IF Journal Paper or IF Policy 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 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 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