

PRE-REQUISITE(S)

No pre-requisite is required

CREDIT HOURS

3

SYNOPSIS

An extension of the FIN501 Corporate Finance course applied to the international setting. Besides addressing the issues of exchange rate volatility, various complications and risks arise out of operating across countries. This course provides an overview on the instruments, business practices for managing global business portfolio.

LEARNING OUTCOMES

- Develop and appraise prudent foreign investment selection procedure and off-shore financing strategy in accordance with organisation's value.
- Evaluate risk relating to exchange rate fluctuations and develop strategies to deal with them.
- Express well-considered opinion on issues relating to international financial management with effective leadership.
- Develop strategies to deal with other types of country risks associated with foreign operations.

TOPICS

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| Topic 1 | Globalization and the International Monetary System <ul style="list-style-type: none">• Motives for going globalization• The institutional framework for international trade settlement and the pros and cons of the various exchange regimes• Issues arising from the transmission mechanism including Asian financial crisis |
| Topic 2 | The Foreign Exchange Market for developing investment strategies <ul style="list-style-type: none">• Organization of the exchange market and spot/forward forex quotations• Swap transaction and derivative instruments: current swap, futures, options• Arbitrage conditions: Locational, Triangular and Covered Interest |
| Topic 3 | Balance of Payments (BoP) Analysis – revisit <ul style="list-style-type: none">• Examine the effect of current international trade on global financial management regime• Analyse emerging issues on international trade misalignment and potential trade wars among developed economies |

Topic 4	<p>Forecasting Foreign Rates</p> <ul style="list-style-type: none"> • Discuss market efficiency hypothesis and currency movement forecast • Explain PPP, IRP, trade balances and capital flow analysis • Describes short term, long term exchange rate forecasting methods • Alternative exchange rate systems – free float; managed float; target-zone arrangement; fixed rate system • The current system of exchange rate determination
Topic 5	<p>Management of Economic Exposure and Economic Exposure</p> <ul style="list-style-type: none"> • Definition and structure of economic exposure: asset & operating exposure • Notions of competitive and conversion effects • Financial hedging vs. operational hedging
Topic 6	<p>Management of Transaction Exposure</p> <ul style="list-style-type: none"> • Explain hedging through forwards, options and their upfront costs and ex post regret, contingent exposure hedging • How to use money market instruments for currency hedging • Describe netting exposure, hedging through invoicing, cross hedging • Motives for hedging exchange exposure
Topic 7	<p>Management of Translation Exposure</p> <ul style="list-style-type: none"> • Background on foreign exchange • Foreign exchange exposures • Introduction to foreign exchange market practice • Best practice foreign exchange and commodity risk management • Risk management for importers and exporters • Currency option pricing • Commodity risk • Current rate method, current/noncurrent method, monetary/non-monetary method and the temporal method • Balance sheet hedge and derivative hedge
Topic 8	<p>Global Financial Markets</p> <ul style="list-style-type: none"> • Explain the functions of international bank in facilitating cross-border transactions and foreign investment, offshore banking activities and hedging • Describe the international bond market organization, Eurobonds and foreign bonds and issuing and rating process of foreign bonds • Assess the depth and liquidity of an emerging stock market • Explain the function of cross-listing and depository receipt and their advantages
Topic 9	<p>Management of Interest Rate and Currency Risks</p> <ul style="list-style-type: none"> • Types of interest rate risk management products • Identification of interest rate risk • Quantification of interest rate risk • Management of interest rate risk

- Explain the various risks components in exchange currencies transaction: interest rate risk, exchange rate risk, credit risk, mismatch risk and sovereign risk
- Describe the organization of swap market, improvement to market completeness
- Explain swap instruments and hedging strategies: floating vs. fixed interest rate swap, liability, asset currency swap

Topic 10 International Capital Structure and the Cost of Capital

- Explain the difference between cost of capital in segmented and integrated markets and the difference in cost of capital among countries
- Illustrate the cost and benefit of cross-border stocks listings and capital asset pricing under cross listings
- Describe the effect of foreign equity ownership restrictions and various aspects of the financial structure of subsidiaries

Topic 11 Foreign Direct Investment (FDI)

- Describe the global trends in FDI and explain the rationale for firms investing in overseas markets
- Explain the added complication of cross border M & A
- Describe the potential political risk to FDI and various ways of measuring and controlling political risks

Topic 12 International Capital Budgeting

- Review domestic capital budgeting and explain adjusted Present Value Model for cross border investment appraisal from the Parent Firm's perspective
- Explain the need to make risk adjustment to reflect the added political risks in foreign investments

Topic 13 Multinational Cash Management

- Describe and explain the added decision making in the management of multinational cash balances
- Illustrate the various issues in the setting up of cash management systems
- Explain the controversies of transfer pricing and added complications in operating cross-countries business
- Explain the issue of foreign exchange restriction and various methods of moving blocked funds

Topic 14 Controlling Risks

- Culture of financial risk management
- Risk of management framework
- Operational aspects of governance and risk control
- Governance framework over financial risk management

Topic 15 Financial Risk Management

- Risk Defined
- Enterprise Risk Management
- Managing Risks
- Risk Transfer

Consultation

Self-study / library research

ASSESSMENT DETAILS

Continuous Assessment	%
Presentation of Short Synthesis Assignment	30
Metacognitive Discussion on Written Assessment work	20
Final Assessment	%
Open Book Exam	20
Written Assessment Report	20
Closed Book Exam	10

PRESCRIBED TEXT

Main:

Glen Arnold, Corporate Financial Management, 5th Ed. (2018) Pearson Education Limited

Jeff Madura, Ariful Hoque, Chandrasekhar Krishnamurti, International Financial Management, 1st Ed. (2018) Cengage Australia

Bakaert; Geert; Hodrick and Robert, International Financial Management, 3rd Ed. (2017), Cambridge

Eun Cheol and Bruce Resnick, International Financial Management 8th Ed. (2018) McGraw Hill

Shapiro, A.C., International Financial Management, (2014) Wiley

Additional References:

Eun Cheol, International Financial Management, 8th Ed. (2017), McGraw Hill

Fabozzi, F.J. and Drake, P.P., Finance: Capital Markets, Financial Management and Investment Management, (2009), Wiley

Hassan, M.K. and Mahlknecht, M. (eds.), Islamic Capital Markets: Products and Strategies, (2011), Wiley

Oyama, T., Post-Crisis Risk Management: Bracing for the Next Perfect Storm, (2010), Wiley

Merna, T. and Al-Thani, F.F., Corporate Risk Management, (2008), Wiley

Fraser, J. and Simkins, B.J., Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives, (2010), KOLB Series in Finance, Wiley

Given the nature of the topics, additional readings will be indicated and posted to HELP E-Learning to which students have access.