



FIN 442 A1: International Finance

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Overview

This course has two major objectives. The first is to provide information on the international economic environment and the foreign exchange market. The second is to discuss financial management in an international setting, with a focus on identifying and managing currency risk, and international investment and financing decisions. FIN 442 incorporates the learning goals of the BCom Program, especially critical thinking, global awareness, teamwork, quantitative skills and written communication.

This is a course in international *finance* and therefore *quantitative* in nature. The lectures, assignments and exam are formula and number-oriented. Do *not* take this course if you are looking for an easy grade (the median grade has historically been B/B+, with many Cs and Ds). However, if you are prepared to work hard, you are likely to take positives from the course.

Textbook and other relevant materials

The recommended textbook for the course is *International Financial Management* (9th ed.) by Eun, Resnick and Chuluun, published by McGraw-Hill, henceforth *IFM*. In addition, I encourage you to read the finance sections of publications such as the *Globe and Mail*, the *National Post*, the *Wall Street Journal* and the *Economist*, where you will find articles dealing with issues relevant to this course. We will discuss such articles in class.

Class materials can be downloaded from the course page. The material for a topic should be available at least a week in advance. Slides marked with an asterisk (*) are not examinable. Last year's materials are also available on the course page.

Course page and contact information

Lectures: Tue/Thu, 9:30 am-10:50 am, BUS 3-10

Office: 2-32M Faculty of Business Building

Tel.: 780-492-5027

E-mail: akaul@ualberta.ca (*The best way to reach me. I try to respond to emails within 24 hours.*)

Office hours: Tue/Thu, 12:30 pm-1:30 pm

Course page: Log into eClass (<https://eclass.srv.ualberta.ca/portal/>) and choose FIN 442 LEC A1 - FIN 442 LEC A2 - Fall 2021

Library resource page: <https://guides.library.ualberta.ca/442>.

Grading and Conduct

Your grade for the course will be determined by a course project (worth **30%** of your grade; see below for details), two assignments (worth **35%**) and a final exam (worth **35%**). I grade on a curve but also consider absolute performance; thus, for instance, an overall score of 80 has never received a course grade of B-. Class participation is encouraged and will be used to determine grades in marginal cases. You are required to get at least **50% overall AND at least 40% on the final exam** in order to pass the course. **You must take the exam with your section, or it will not be graded.** If you miss the final, I will assign a make-up project, due January 31 in the New Year. Deferred exam requests must be submitted to, and approved by, the undergraduate office. My opinion is that it is in your best interest to not miss the final exam. Note that in order to miss an exam you must have a valid excuse, e.g. sickness.

Exam questions will be based on material covered in class. Examples and articles from class and end-of-chapter problems are representative of exam questions. Sample exams and solutions to textbook problems are available on the course page. **Please bring a calculator (ordinary or scientific) to the exams, as your phone must be put away.**

The University of Alberta is committed to the highest standards of academic integrity and honesty. Students are expected to be familiar with these standards and to uphold the policies of the University in this respect. Students are urged to familiarize themselves with the provisions of the code of student behavior and avoid behavior that could potentially result in suspicions of cheating, plagiarism, misrepresentation of facts and/or participation in an offence. Academic dishonesty is a serious offence and can result in suspension or expulsion from the University. The code of student behavior is available here:

<https://www.ualberta.ca/governance/resources/policies-standards-and-codes-of-conduct/code-of-student-behaviour.html>.

Materially similar assignments or exams will be severely dealt with. My hope is that you are in this course because you want to learn. The exam and assignments are an important part of the learning process.

Audio or video recording, digital or otherwise, by students of the lectures or other course-related sessions is allowed only with the prior written consent of the instructor or as a part of an approved accommodation plan. Student or instructor content, digital or otherwise, created and/or used within the context of the course is to be used solely for personal study, and is not to be used or distributed for any other purpose without prior written consent from the content author(s).

Be sure to put away your cell phone before the lecture starts. The use of computers for note-taking is understandable. But, please, no texting or web surfing once we get going.

Examination

The final exam is **December 13 at 9:00 am**. The final is non-cumulative, though you will need to be on top of important material covered before the midterm.

Course outline

1. The foreign exchange market
 - a. Market basics IFM, Chapter 5
 - b. FX Prices IFM, Chapter 5
2. International parity conditions IFM, Chapter 6, pages 151 – 170
3. Exchange rate determination and forecasting IFM, Chapter 3; Chapter 6, pages 170 – 177
4. Exchange rate exposures
 - a. Translation exposure IFM, Chapter 10
 - b. Transaction exposure IFM, Chapter 8
 - c. Economic exposure IFM, Chapter 9
5. Hedging exposures IFM, Chapter 8; Chapter 9
6. International portfolio choice IFM, Chapter 15
7. International capital budgeting, foreign direct investment and political risk IFM, ; Chapter 16; Chapter 17; Chapter 18; Mini- case
8. International financing IFM, Chapter 12; Chapter 13
9. The international monetary system IFM, Chapter 2

Think of the textbook as being complementary to the lecture notes. While the book is good, it fails to provide adequate coverage in several areas. The lectures will fill these gaps. The book will, in turn, add depth to the material covered during the lectures.

As we proceed through the term, I may add or drop topics, or alter the order in which we cover topics.

Course project: Firm analysis [Counts for 30% of grade, due **December 7**]

Project description

You are required to analyze the impact of the international environment on a firm or firms of your choice. The goal is to identify the firm's risk exposures and the effectiveness of its risk management programs, specifically with regard to exchange rates. This involves the following steps.

1. Select a firm and carefully analyze its operations. For instance, you could select (a) an oil firm, (b) a bank, or (c) a consumer products firm with international operations.
2. Obtain information on the firm. If you choose a consumer products firm, for instance, find out whether it is an exporter, importer or import competitor, and countries whose economies the firm is dependent upon. Also determine whether the firm has a policy regarding hedging, and the hedging instruments used. The purpose of this analysis is to identify risks faced by the firm, as well as whether and how the firm counters these risks. Note that the firm does not have to be Canadian. Note also that the firm will likely also face risks other than exchange rate risks. While focusing on exchange rate risks, you should consider all of the major risk factors.
3. Collect stock price data for the firm, as well as data on the major risk factors.
4. Carry out a statistical analysis of the relation between the firm's stock price and the risk factors.
5. Comment on whether the results of the statistical analysis make sense or not, given what you know about the firm's operations and hedging activities.

The data you require (stock prices for Canadian and non-Canadian firms, exchange rates, interest rates, oil prices, etc.) should be available from the Global Finance database: [GFD](#). If this link doesn't work, you can go to the library website, and search for Global Finance database from the list of databases. In each case, you will need your U of A CCID and password, to get to the database and then a client login to access the data (at your initial login you will be asked to register). Other data sources are the Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/>, (for exchange rates and interest rates), CFMRC (for Canadian stock prices). You should try to collect a minimum of 60 months of data. Background information on the firm is available from the firm's annual reports and financial statements (which will likely include revenue and hedging information), which you can find online. Another source is news releases about the firm (in the *Globe and Mail*, the *National Post*, and the *Wall Street Journal*), which are available from Dow Jones/Factiva. The library resource page lists sources of information: <https://guides.library.ualberta.ca/442>.

You can make the analysis much richer. For instance, in addition to stock prices, you could analyze accounting information, such as earnings. These data are also available in GFD. (Remember that accounting data are available less frequently, quarterly at best. The reduced number of observations will have statistical implications, but you need not worry about these implications if you decide to analyze accounting data.) Or you could analyze sub-periods where you expect the relation between stock prices and exchange rates to be systematically different, e.g. if you find that the firm instituted a hedging program at some point. Or you could compare firms in the same industry or in different industries. Such creativity will be rewarded.

General rules

The project is due in **hard copy** at our final session: **no exceptions**. If you are going to be out of town on that date, turn it in early. Only projects in my possession by the last class will be graded.

You will not get the report back. However, I will be happy to discuss it with you after it has been graded. I will keep your projects until the end of the following term.

You can work on the project individually or in groups of up to **five** members.

The statistical analysis can be performed in the package of your choice. Most of you will probably use *Excel*, which I assume you have learned elsewhere. I will not provide assistance with *Excel*.

Description of report and grading

The report is not to exceed **three pages** in length (font **no smaller than 10 point**, spacing **at least 1.5 lines**), and I will not read text beyond the three page limit. The main statistical analysis should be presented in an appendix, which will not count against the three pages. It is a good idea to attach a sample of the data and your calculations.

The report should include

- (a) A description of the firm, its businesses and geographical operations, etc., and how and why you expect it to be impacted by certain exchange rates and other risk factors, worth 8 points;
- (b) Presentation and discussion of the statistical analysis, worth 8 points; and
- (c) Comments on the relation between your findings in (a) and (b), worth 12 points.

2 points are reserved for the quality of the presentation.

It is in your best interest not to share the specifics of your project with other groups. Uncannily similar projects will be severely penalized.

A few tips to get you started

First, in order to simplify your analysis, try to be deliberate about the firm you choose. For example, select a firm that you are familiar with or one more likely to be affected by exchange rates. Second, published data occasionally have errors. Collect the data early and check them for weird features. For instance, look for very large positive or negative returns. Large negative returns could indicate stock splits and the price data need to be corrected for such events. *Before you run regressions you have to worry about statistical issues such as collinearity (high correlations among the exchange rates and other explanatory variables) and insufficient variation in the variables (e.g. the prime rate).* You should contact me about such matters.

You will learn the relevant tools and concepts as we proceed through the course. Note that I will discuss the selection of firms, data problems and the general set-up of the project until **October 15**. If you wish to obtain my input on these aspects, you should have selected your firm and collected the data by this date.

Assignments [Count for 35% of grade]

The purpose of the assignments is to apply the concepts discussed in the lectures to actual data. I usually give you the data; if you have to download some data, the above data sources are relevant. *The assignments should be available by the end of week 1, and will be due one week after we finish the relevant material.*

A few things to note

- As with the project, I recommend working in groups, and am limiting the group size to **five**.
- Please submit each assignment (one per group) in hard copy form.
- The statistical analysis can be performed in the package of your choice. The default is Excel.
- It is a good idea to include a screen shot of your main calculations.
- I appreciate brevity and clarity, and must be able to understand your analysis easily.
- I provide partial credit but try to be tough in my grading. I am looking for sound analysis but also for interpretation and insights beyond the analysis.