

BFM207 INTERNATIONAL FINANCE

Academic Year 2013/14

Number of Aston Credits: 15

Number of ECTS Credits: 7.5

Staff Member Responsible for the Module:

Prof Nathan Lael Joseph, Finance & Accounting Group
Aston Business School Building, Room 419
Email: n.l.joseph@aston.ac.uk, Extension: 3143
Availability: See WASS
Or contact the Finance & Accounting Group Administrator:
Ms Rosaleen Shirley, Room ABS404, Extension: 3238

Pre-requisites for the Module:

Prior completion of the taught component of BFM205 (Exam results may not be known by the start of this module).

A good understanding of basic statistics.

Mode of Attendance:

On campus

Module Objectives and Learning Outcomes:

The purpose of this module is to provide you with an in-depth understanding of specific issues in international finance particularly in relation to the impacts of financial risk on the operations of firm that operate across borders. The module will cover the following broad areas: (i) the role of international financial markets; (ii) the financial problems faced by firms when undertaking international trade and investments; and (iii) the financial strategies used by multinational firms to alleviate the problems posted by financial and political risks. Emphasis will be placed on the use of various financial instruments to manage risk. The relevance of both theoretical and empirical works will be highlighted to enable you to understanding the financial issues facing firms and investors when firms operate internationally.



Upon completion of this module you should be able to:

- > Identify and explain the operational significance of international financial markets and how regulatory frameworks can affect decision making by firms.
- > Identify and explain the various types of risks faced by firms and the strategies they use to manage such risks.
- > Understand the functions of international stock exchanges and the issues associated with international investments.
- > Identify some of the sources of international finance and the attitudes of international investors.
- > Understand how the cash flows of international investments are evaluated.

This module is offered across a number of programmes:

MSc Accounting and Finance;
MSc Business and Management;
MSc Finance and Financial Regulation;
MSc International Business;
MSc Strategy and International Business.

Curriculum objective	Module Objective	Sessions	Assessment method
A1 Demonstrate knowledge and understanding of the theories, principles and underlying concepts and practice of management and an understanding of business models and processes in a national and international context.	Be able to synthesise and communicate complex information about international financial decisions and evaluations in context in clear language, demonstrating more than repetition of course materials.	All	Coursework. Part A of the exam and Group assignment.
B1 Demonstrate competence in critical reasoning and decision-making. B2 demonstrate a high level of intellectual and analytical skills and through intensive post graduate study have acquired and developed understanding of business and management subjects. B5 Demonstrate an understanding of the strengths and weaknesses of evidence based approaches to decision making.	Be able to construct an argument to support a financial decision by reference to theory and current examples in the news. Be able to acknowledge the limitations of current financial theory.	1, 2, 3, 5, 7, 8.	Part A of the Exam.

<p>C1 Apply principles, models and theories in the working environment.</p> <p>C2 Use key accounting and financial tools to aide decision making in a financial setting.</p>	<p>Be able to calculate and select appropriate discount rates, valuation techniques in an international business context including the use of the WACC. Be able to price simple risk management products</p>	<p>3, 4, 5, 6,</p>	<p>Part B of the exam.</p> <p>Group assignment</p> <p>Part B of the exam.</p> <p>Group assignment</p>
<p>D4 Communication and team working skills</p> <p>D5: Competency in understanding relevant statistical analyses and their interpretation</p>	<p>Be able to work together to produce a single output and capitalise on each group member's strengths.</p> <p>Be able to identify relevant material and synthesise course concepts into strategic advice supported by empirical calculations to support cross-border investment activities.</p>	<p>All.</p> <p>3, 5, 6, 7, 8.</p>	<p>Group assignment</p> <p>Group Assignment.</p> <p>Part B of the exam.</p>

Module Content:

Week 1:

Finance across the Globe

Overview of the financial system. Relevance of international finance to corporations. The multinational corporation (MNC) and its financial objectives. Methods of expansion used by firms. Theories of foreign direct investment

Reading Material incl. Seminar Notes; Madura & Fox, Chap. 1, pp. 3-19; Chap 3, pp. 65-67; 77-78; 82-91; Chap 5, pp. 134-135, pp. 141-144; Chap 13. OR Buckley, Chap.3, pp. 36-43; Chap. 20; then: Buckley and Casson (2009); Chung and Yeaple (2008).

Week 2:

The Foreign Exchange Market

Parity relations, exchange rate determination and empirical evidence
Market efficiency and exchange rate (un)biasedness
Testing the unbiasedness hypothesis

Reading Material incl. Seminar Notes: Madura & Fox, Chap 4,7 & 8; OR Buckley, Chap 4; Chap. 3, pp. 36-43; Chap 20.



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- Week 3:** Foreign Exchange Exposure and Firm Valuation
Role of centralised functions
Transaction, translation, economic and competitive exposures.
Valuing a foreign subsidiary
Exposure management practice
Reading Material: Seminar Notes; Madura & Fox, Chap. 1, pp. 21-27; Chap 4, 125; Chap 10, pp. 339-342; 350-361; Chap11, pp. 369-392; Chap 12, pp. 416-433 , Chap 13. OR Buckley, Chap 8; then: Chap 10, pp. 169-176; Chap.11, pp. 191-204.
- Week 4:** External hedging techniques (1)
The foreign exchange and the money markets
Spot and forward rates and the associated contracts
Buying and selling currencies
Cross-rates

Reading Material incl. Seminar Notes: Madura & Fox, Chap. 3, pp. 68-78; Chap 5, pp. 134-140. OR Buckley Chap 5; Chap 13, pp. 229-234; Chap 16, pp. 272-281; Chap 17, pp. 301-316.
- Week 5:** External hedging techniques (2)
Pricing forwards and futures under risk neutrality
Currency swaps and the motives for using them
Interest rate swaps and the motives for using them

Reading Material: Seminar Notes; Madura & Fox, chap 5, pp. 134-145;pp, 147-148; Chap 11, 371-393; Chap, 16, pp. 547-556. OR Buckley, Chap 14, pp. 245-254; 259-264; then: Wall and Pringle (1989); Tucker et al, Chap. 13, pp. 248-249; pp. 252-255.
- Week 6:** External Hedging Techniques (3)
Financial options
Valuing options
Internal hedging techniques

Reading Material: Seminar Notes; Madura & Fox, Chap 5, pp. 150-166; Chap 11,378; 392-395; OR Buckley, Chap 16, pp. 286-302.
- Week 7:** To Hedge or not to Hedge Corporate Exposures
Motives for hedging corporate exposure

Reading Material: Seminar Notes; Madura & Fox, Chap 10, pp. 337-342; 357-361; p. 432. OR Buckley Chap 11, pp. 180-192; then: Joseph and Hewins (1997); Eun and Resnick (1988); Clark and Judge (2008); Hagelin (2003).



For further information on any of the opportunities that Aston Business School offers, please contact:

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Week 8: Business Across Borders and International Capital Budgeting
Why firms list their shares on more than one stock exchange. The importance of a well run stock exchange. Problems of international capital budgeting. Salvage value. A fully worked example.

Reading Material: Seminar Notes; Madura & Fox Chap 1, pp. 21; Chaps 13, 14. OR Buckley Chap 22; Chap 24, pp. 472-475; Chap 26.

Week 9: Revision seminar

Week 10: Examination

This outline is intended to be a general guide for the module and is not an all-encompassing description of the topics or expected learning outcomes.

Corporate Connections:

Professor Joseph is a professionally qualified accountant (ACMA). He has had several years of practical experience in accounting and international treasury management. His research interests focus on risk management and estimation, and asset pricing. Some of his research on corporate governance has also involved interviews with corporate executives. He has served as external examiner for a number of UK universities at both masters degree and PhD levels. He is the co-editor of the British Accounting Review and also serves as an Associate Editor of International Journal of Applied Decision Sciences, International Journal of Strategic Decision Sciences. Professor Joseph is also sits on the editorial boards of several Academic Journals.

International Dimensions:

This module is primarily concerned with the impacts of the international economic environment on firms that operate across national boundaries. The module emphasizes the financial decisions that the firms' managers can take to minimize adverse economic impacts of financial markets. Risk management techniques and their practical limitations will be discussed. There will also be discussions of live events and how they affect companies trading across borders.

Contribution of Research:

The lectures will engage at a reasonable level with research developments in the areas of financial risk management and international finance as well as the practical implications of these research developments for firms that operate across borders.



The lecturer has published extensively in established finance and accounting journals. He will also draw on the relevant areas of his research and his practical experience in financial risk management to clarify areas of the module.

Ethics, Responsibility & Sustainability:

Reference will be made to some of the practical challenges faced in cross border investments and the current codes of professional conduct as a form of ethical behaviour. Students will be expected to read and engage with material in the module web to enable an informed discussion on this topic as we progress through the module.

Method of Teaching:

The teaching will comprise a mixture of lectures, group discussions, group work and exercises. The module web contains exercises and past examination papers. You may be provided with additional handouts and suggested solutions to exercises during the term. There will be Weekly Office hours with the lecturer to develop confidence in key areas.

We hope to invite several guest speakers to discuss aspects of international finance in action.

Method of Assessment and Feedback:

Successful completion of both assessment elements.

1. Compulsory Syndicate Group Work

This assignment must be done by members of each Syndicate Group. The assignment will be specified on Blackboard at the start of term and needs to be submitted to PG Office (two copies per Syndicate Group) by end of week 8. Only one assignment submission is needed by each Syndicate Group. The assignment carries 10% of the final examination marks and should be no more than 1,500 words long. Successful completion of this task is essential for successful completion of the module.

At the submission stage, make sure that the names of all individual who participated in the Syndicate Group assignment are included on the cover sheet of the assignment.

2. A 2 hour closed book examination paper made up of essay and computation-type questions. This part of the module contributes to 90% of the overall marks.

Feedback is available on request either during office hours, via email or on Blackboard.

Learning Hours:

Pre-reading	18 (2 hours × 9 seminars)
Contact Hours	27
Directed Learning	65
Further Private Study	20
Group Work	20
Total	150

The following readings are subject to change. Students should not therefore purchase textbooks prior to commencing their course. If students wish to undertake background reading before starting the course, many of the chapters/readings are available in electronic form via on-line library catalogues and other resources.

Pre-reading

Week 1: Finance across the Globe **(2 hours)**
Pre-reading: Seminar Notes; Madura & Fox, Chap. 1, pp. 3-19; Chap 3, pp. 65-67; 77-78; 82-91; Chap 5, pp. 134-135, pp. 141-144; Chap 13. OR Buckley, Chap.3, pp. 36-43; Chap. 20.

Week 2: The Foreign Exchange Market **(2 hours)**
Reading Material incl. Seminar Notes: Madura & Fox, Chap 4,7 & 8; OR Buckley, Chap 4; Chap. 3, pp. 36-43; Chap 20.

Week 3: Foreign Exchange Exposure and Firm Valuation **(2 hours)**
Pre-reading:: Seminar Notes; Madura & Fox, Chap. 1, pp. 21-27; Chap 4, 125; Chap 10, pp. 339-342; 350-361; Chap11, pp. 369-392; Chap 12, pp. 416-433, Chap 13. OR Buckley, Chap 8; then: Chap 10, pp. 169-176; Chap.11, pp. 191-204.

Week 4: External hedging techniques (1) **(2 hours)**
Pre-reading: Seminar Notes: Madura & Fox, Chap. 3, pp. 68-78; Chap 5, pp. 134-140. OR Buckley Chap 5; Chap 13, pp. 229-234; Chap 16, pp. 272-281; Chap 17, pp. 301-316.

- Week 5:** External hedging techniques (2) **(2 hours)**
Pre-reading: Seminar Notes; Madura & Fox, chap 5, pp. 134-145; pp. 147-148; Chap 11, 371-393; Chap, 16, pp. 547-556. OR Buckley, Chap 14, pp. 245-254; 259-264;
- Week 6:** External Hedging Techniques (3) **(2 hours)**
Pre-reading: Seminar Notes; Madura & Fox, Chap 5, pp. 150-166; Chap 11, 378; 392-395; OR Buckley, Chap 16, pp. 286-302.
- Week 7:** To Hedge or not to Hedge Corporate Exposures **(2 hours)**
Pre-reading: Seminar Notes; Madura & Fox, Chap 10, pp. 337-342; 357-361; p. 432. OR Buckley Chap 11, pp. 180-192;
- Week 8:** Business Across Borders & International Capital Budgeting **(2 hours)**
Pre-reading: Seminar Notes; Madura & Fox Chap 1, pp. 21; Chaps 13, 14. OR Buckley Chap 22; Chap 24, pp. 472-475; Chap 26.

Essential Reading:

Main text: Madura, J. and Fox, R. (2011) International Financial Management, Thomson Publishing Services
Or
Buckley, A. (2004). Multinational Finance, 5th Edition. F.T. Prentice Hall.

Indicative Bibliography:

Alper, C. E., O. P. Ardic and S. Fendoglu (2009). The economics of uncovered interest parity conditions in emerging markets. *Journal of Economic Survey* 23, 115-138.

Bacchetta, P. and van Wincoop, E. (2006) Incomplete information processing: a solution to the forward discount puzzle. *Proceedings, Federal Reserve Bank of San Francisco*, June.

Barnhart, S. and Szakmary, A., (1991). Testing the unbiased forward rate hypothesis: evidence on unit roots, cointegration, and stochastic coefficients, *Journal of Financial and Quantitative Analysis*, 26, 245-267.

Buckley, P. and Casson, M. (2009). The internalisation theory of the multinational enterprise: A review of the progress of a research agenda after 30 years. *Journal of International Business Studies* 40, 1563–1580.

Chung, W. and Yeaple, S (2008) International Knowledge sourcing: evidence from U.S. firms expanding abroad, *Strategic Management Journal* 29, 1207–1224.

Clark, E. and Judge, A.P. (2008) The Determinants of Foreign Currency Hedging: Does Foreign Currency Debt Induce a Bias? *European Financial Management*, 14, 445-469.

Eun, C. and Resnick, B. (1988) Exchange rate uncertainty, forward contracts, and international portfolio selection. *Journal of Finance*, 43, 197–215.

Frankel, J. and Poonawala, J. (2010) The forward market in emerging currencies: less biased than in major currencies. NBER Working Paper 12496. *Journal of International Money and Finance* 29, 585-598.

Hagelin, N., (2003). Why Firms Hedge with Currency Derivatives: An Examination of Transaction and Translation Exposure, *Applied Financial Economics*, 13, No.1.

*Joseph, N. and R. Hewins (1997). The Motives for Corporate Hedging among UK Multinationals, *International Journal of Finance and Economics*, Vol. 2, 151-171.

Lel, U. (2012) Currency Hedging and Corporate Governance: A Cross-Country Analysis. *Journal of Corporate Finance*, 18, 221-237.

*Tucker, A., Madura, J. and Chiang, T. (1991). *International Financial Markets*, Chap 13, West Publishing Company

*Wall, L and Pringle, J. (1989). Alternative explanations of Interest rate swaps: A theoretical and empirical analysis, *Financial Management*, Summer, 59-73.

Williams, B. (1997) Positive theories of multinational banking: eclectic theory versus internationalisation, *Journal of Economic Surveys*, Vol. 11, 71-101.

* indicates provided on Blackboard. Other readings can be obtained in the Library some on short-term loan.

Online Resources:

Overheads, additional resources and other key journal articles will be made available on Blackboard

Recommended Business Press and Journals:

Students should undertake reading of selected and relevant areas of the *Financial Times*, *Economist*, *Journal of Multinational Financial Management*, *Journal of International Money and Finance*. This will help you to put some of the material covered in the module in context.

Additional Readings:

These are provided on the module web either as electronic material or via links to the eLibrary.