



APPLIES TO ACADEMIC YEAR 2015/2016

FIN 3524 International Financial Management

Programme

Bachelor of Business Administration (3. year), Bachelor of Finance (2. year)

Responsible for the course

Håkon Tretvoll

Department

Department of Financial Economics

Term

According to study plan

ECTS Credits

7,5

Language of instruction

English

Introduction

The globalization of world markets over the last couple of decades has greatly increased international trade and capital flows. Few modern industries have been left unaffected by these changes, and understanding the risks firms face when conducting business across international borders has become a key component of a modern business education. Managers responsible for operations in several countries must understand the impact on a firm's cash flows from changes in exchange rates as well as from differences in interest rates and the prices of goods across these locations.

This course will discuss the economic forces behind exchange rate fluctuations, and the theoretical parity relationships that link exchange rates with interest rates and inflation rates in different countries. We will also discuss the extent to which these relationships hold in practice, and the financial instruments that are available to manage the risks involved in international operations. For both businesses and investors access to international markets comes with opportunities in addition to risk, and the course will examine the benefits of increased diversification internationally. Finally, globalization has led to increased integration in the world economy for developing countries. These countries tend to have less developed financial and political systems, and we end the course by considering the risks involved in operating and investing in such locations.

Learning outcome

Acquired knowledge

Students will acquire a good understanding of how to evaluate and manage the risks involved in conducting business in international markets. Specifically, the students will develop their understanding of the following topics:

- The management of exchange rate risk through the forward foreign exchange market.
- The balance of payments and the economic forces that cause exchange rates to fluctuate.
- The relationships between exchange rates and nominal interest rates.
- The link between exchange rates and the prices of goods across countries – in theory and in practice.
- The risks and benefits of investing in international capital markets.
- Political and country risk and their influence on international capital budgeting.

Acquired skills

During the acquisition of the above mentioned knowledge the students will acquire the following skills:

- Assessing the uncertainty about future exchange rate changes.
- Calculating parity-derived relationships between interest rates and exchange rates.
- Assessing the risk premium associated with investments in the forward market.
- Calculating baseline exchange rate forecasts based on purchasing power parity.
- Calculating required rates of return for international investments based on the world Capital Asset Pricing Model.
- Incorporating political and country risk in capital budgeting decisions.

Reflection

Upon completion of the course students should appreciate the risks involved in conducting business and investing in

international markets. The theoretical and practical knowledge provided should enable students to assess these risks and to understand the financial instruments that are available to manage them. Students should also appreciate the benefits of increased diversification that international markets provide.

Prerequisites

BØK 3423 Finance and FIN 3521 Corporate Finance, or equivalent.

Compulsory reading

Books:

Bekaert, Geert and Robert J. Hodrick. 2014. International financial management. 2nd ed. Pearson

Recommended reading

Course outline

1. International Economics and Finance
2. The Forward Foreign Exchange Market
3. The Balance of Payments
4. Interest Rate Parity
5. Exchange Rate Risk and Exposure
6. Real Exchange Rates
7. Investing in International Capital Markets
8. Political and Country Specific Risk

Computer-based tools

During the course students will be asked to collect data from Bloomberg and to perform analyses using Bloomberg's built-in functionality and/or Excel spreadsheets.

Learning process and workload

The following is an indication of the time required:

| Activity | Hours |
|--|------------|
| Attendance in lectures | 36 |
| In-class/Bloomberg work for home assignments | 6 |
| Independent reading/preparation for class | 93 |
| Home assignments | 25 |
| Preparation for final exam | 40 |
| Total recommended use of time | 200 |

Use of hours

The lectures will be plenary sessions whereas the Bloomberg sessions will be done in different sections of maximum 40 students each. The Bloomberg room has 10 workstations and there will be up to 4 students on each workstation. Therefore, depending on the number of students registered for the course there will be formed n sessions. For example if 150 students are registered then there will be 4 sessions of around 37 students each.

36 hours – Lectures

$6 \times n$ hours – Bloomberg sessions

3 hours – Coordination of learning activities

$36 + 6 \times n + 3$ hours – Total

OBS! Kommentar fra Programområdet for Bachelorstudier

Sammenlignet med tidligere studieplan er kurset er flyttet fra 3. til 2. år (6. til 4. semester)

Klassestørrelsen på 2. år finans er ca 70 studenter. I tillegg vil kurset være åpent for innvekslingstudenter ca 10 studenter.

Bloombergrømmet har 10 maskiner tilgjengelig. Med utgangspunkt i fire studenter pr. maskin er maksimum antall studenter pr. gjennomføring 40. Det må følgelig beregnes minimum to gjennomføringer av Bloomberg-sesjonene, dvs. 6 timer ekstra ressurtimer.

Examination

This is a course with continuous assessment (several exam components) and one final exam code. Each exam component is graded by using points on a scale from 0-100. The components will be weighted together according to the information below in order to calculate the final letter grade for the examination code (course). Students who fail to participate in one/some/all exam elements will get a lower grade or may fail the course.

The final grade in the course will be based on the following components and weightings:

- Home assignments, counts 20% of the final grade. There are five home assignments to be completed during the semester. The 20% class work grade will be the average of the best four out of the five home assignments.
- A 3-hour individual written exam, counts for 80 % of the grade.

Examination code(s)

FIN 35241 – Process evaluation counts 100% towards the final grade in FIN 3524 International Financial Management, 7,5 ECTS credits.

Examination support materials

Interest tables and BI approved exam calculator. Examination support materials at written examinations are explained under examination information in the student portal @bi. Please note use of calculator and dictionary in the section on support materials (https://at.bi.no/EN/Pages/Exa_Hjelpemidler-til-eksamen.aspx).

Re-sit examination

Re-sit examination is offered at the next scheduled course.

At re-sit it will be required that the entire evaluation process is conducted again, and that students who do not achieve points in one or more exam components will get a lower grade or fail the course. Previously conducted examination components will not be part of the assessment for a new character.

Additional information