

### COURSE INFORMATION

Course title:	International Financial Management		
Course code:	BAFI 532	Credits:	1.5
Session, term, period:	2019W2, term 1, Period 1	Class location:	HA133
Section(s):	302	Class times:	Sep 8, Sep 22 and Oct 6: 8:30am-4:00pm
Course duration:	Sep 8 2019 to Oct 6 2019	Pre-requisites:	[n/a]
Division:	Finance	Co-requisites:	[n/a]
Program:	PMBA		

### INSTRUCTOR INFORMATION

Instructor:	Ali Lazrak	Office location:	HA872
Phone:	604 822 9481	Office hours:	By appointment
Email:	<a href="mailto:lazrak@sauder.ubc.ca">lazrak@sauder.ubc.ca</a>		

Teaching assistant:	Ellen Xiyue Li
Office hours:	By appointment
Email:	<a href="mailto:ellenlx928@gmail.com">ellenlx928@gmail.com</a>

### COURSE DESCRIPTION

With increased globalization in the business world, the need to understand how exchange rates are set and how the international financial markets work has become of high importance to investors, corporations and governments. This class will endeavor to prepare students to operate in the multinational world of the financial markets. *The starting point of the course is to discuss some stylized facts about currency trading volume and on transaction costs. We then explore how corporations and investors manage foreign currency risk exposure. We finally cover the important topic of currency valuation. We discuss the economics behind currency volatility and develop tools and intuition to understand how currencies respond to daily news about political and economic fundamentals.*

### COURSE FORMAT

The class format is based on lecturing. I will ask questions and implement regularly in class exercises that will be done in small groups so that all students have the opportunity to participate to these activities.

### LEARNING OBJECTIVES

By the end of this course, students will be able to:

- Understand the activities of the FXM (foreign exchange market) and the institutional trading arrangement*
- Be able to assess the transaction costs associated to any transaction in the FXM*
- Be able to use and adapt different hedging methods to mitigate currency risk exposure*
- Know the PPP theory relating good and services prices to exchange rate and be able to assess when the theory can explain observed exchange rates.*
- Know how expected exchange rates should relate to interest rates (UIP or Uncovered interest parity).*
- Understand the importance of monetary policy on exchange rate determination.*
- Given any unexpected currency related news from the newspaper, be able to provide intuition on how it should impact currency valuation*

## ASSESSMENTS

### Summary

<u>Component</u>	<u>Weight</u>
Assignment (case)	15 %
In class quizzes	20%
News story Presentation	10%
Final exam	45%
Class participation	<u>10%</u>
Total	<u>100%</u>

### Details of Assessments

#### Exams:

There will be a closed book final exam (October 20<sup>th</sup>). You will be provided with a formula sheet (posted in advance in the course Canvas website).

#### Quiz:

At the end of some chapters (chap 1 to 5) there will be an in Class 10 min quiz (MCQs). The questions will cover basic conceptual understanding of the chapters and may ask simple quantitative questions. All quizzes have equal weight but one of them (the one with the lowest mark) will not count. You will need a calculator to respond to some questions of the quiz.

#### Assignments (case):

The case: *F. Myer Imports: Hedging Foreign Currency risk by Wallace Fan* (Ivery Publishing, W17113) will be assigned:

<https://hbsp.harvard.edu/coursepack-student-view/647440>

The case is an application of the concept of hedging that we covered in class. You will work in groups of 3 people (**one submission per group**). I will randomly form the groups.

#### News Story Presentation:

This is a group assignment (4 students per group) and I will form the groups randomly and post the group members identity in Canvas.

Each group must choose a news story (newspaper articles from "The Economist" or "Financial Times" for example) that is directly related to currencies and international finance. The choice of the news story should be discussed with me before September 10<sup>th</sup>. I am also open to discuss other type of content for the presentation (research paper, or a case study related to your job). The group must present the story to the class (presentations will be done on Sep 23<sup>rd</sup> and Oct 14<sup>th</sup> and a schedule will be posted).

Expectation for the presentation are: 1) to summarize the news story and highlight why it is relevant for international finance 2) Discuss the economics behind the story and when possible, connect the story to the course material 3) Provide a perspective on the news story that is based on your own intuition or your personal experience.

*The presentation duration is 10 minutes (4 PowerPoint pages (including the title page)). All group members should participate in the presentation.*

*Your mark is based on: 1) your level of understanding of the news story 2) your ability to find the economic forces driving the story and, if possible, to relate the story to the concepts covered in class 3) your presentation skills and ability to generate interest and interaction from the audience. More details on evaluations criteria for the presentation will be provided in class.*

**Participation:**

*Please make every effort to come well-prepared to each lecture. It is highly recommended that you go over the relevant lecture notes prior to each lecture. Feel free to ask questions or contribute to lecture discussions at any time. As emphasized earlier, I will be very interested if you can bring stories from the news that we can relate to the course material and use to understand the concepts that we discussed in class.*

**LEARNING MATERIALS**

**Lecture notes:**

*Handouts will be posted on the course Canvas website before the class starts. The handouts are the most important study material as they will guide your learning process both inside and outside class. You should bring a hard copy of the handouts with you to the lectures (I recommend 6 slides per page, double sided) and take notes during the lecture. This will reduce the need to take your own notes, and give you more time to understand the concepts. After the lectures, you should go over the notes again to prepare yourself for the final exam.*

**Required textbook:**

*International Financial Management* by Cheol S. Eun and Bruce G. Resnick, 8th Ed.  
(<https://connect.mheducation.com/class/a-lazrak-bafi-532>). The textbook is “ER”

*The textbook is helpful to have a complementary perspective of the material covered in class. The textbook also offers additional practice exercises that should help you prepare the final exam.*

**Reading (prior to first class):**

*Three weeks prior to the class, start reading the news from Financial times, the Economist, WSJ and other outlet on anything related to currencies. Given any news, whether it is macro-announcement (GDP news, job data), monetary policy announcement or trade policy move; try to predict how currencies respond to the news and see if the news article story is consistent with your prediction. Another important type of news to pay attention to are the news related to the impact of exchange rate changes on corporate profits and stock and bond valuation. Try to build intuition on how exchange rates may affect businesses and see whether your intuitions are consistent with the news story.*

*Reading the currency related news prior to the start of the course, should increase our course engagement and help us bring current material to the class and use the current events to learn about this fascinating topic. I will do this on my side, but it is far more effective if you proactively do it. It should not be too difficult in this turbulent time to find insightful examples.*

*Additionally, for each of our three sessions, it is important to do the readings for the session and cover the lecture note and the textbook chapter to get yourself familiar with the topic. This is important to do because*

*we will have in class quizzes and in order to perform adequately, you have to be engaged from the beginning to the end of the class.*

**Other Learning Resources:**

*Some extra readings will be assigned to support the learning (see Canvas).*

**COURSE-SPECIFIC POLICIES AND RESOURCES**

*Missed or late assignments, and regrading of assessments*

Late submissions will not be accepted and will receive a grade of zero.

*Academic Concessions*

If extenuating circumstances arise, please contact the RHL Graduate School program office as early as reasonably possible, and submit an [Academic Concession Request & Declaration Form](https://webforms.sauder.ubc.ca/academic-concession-rhlee) at <https://webforms.sauder.ubc.ca/academic-concession-rhlee>. If an academic concession is granted during the course, the student will be provided options by RHL, or by the instructor in consultation with RHL, per [UBC's policy on Academic Concession](#).

*Other Course Policies and Resources*

**POLICIES APPLICABLE TO COURSES IN THE ROBERT H. LEE GRADUATE SCHOOL**

*Attendance*

Excepting extenuating circumstances, students are expected to attend 100% of their scheduled class hours. Absent students limit their own academic potential, and that of their classmates, and cause unnecessary disruption to the learning environment. Students missing more than 20% of the total scheduled class hours for a course (including classes held during the add/drop period) without having received an academic concession will be withdrawn from that course. Withdrawals, depending on timing, could result in a "W" or an "F" standing on the transcript.

*Punctuality*

Students are expected to arrive for classes and activities on time and fully prepared to engage. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving later than halfway through a scheduled class will be treated as absent for that class.

*Electronic Devices*

Devices such as laptops, tablets, and cell phones are not permitted to be used in class. There is one exception to this rule: during the quizzes, you will need a calculator to respond to some questions. Students who do not follow the School's policy in this regard may be required to leave the room for the remainder of the class, so that they do not distract others. Research shows that students' use of laptops in class has negative implications for the learning environment, including reducing their own grades and the grades of those sitting around them.

## UNIVERSITY POLICIES AND RESOURCES

UBC provides resources to support student learning and to maintain healthy lifestyles but recognizes that sometimes crises arise and so there are additional resources to access including those for survivors of sexual violence. UBC values respect for the person and ideas of all members of the academic community. Harassment and discrimination are not tolerated nor is suppression of academic freedom. UBC provides appropriate accommodation for students with disabilities and for religious observances. UBC values academic honesty and students are expected to acknowledge the ideas generated by others and to uphold the highest academic standards in all of their actions. Details of the policies and how to access support are available on the UBC Senate website at <https://senate.ubc.ca/policies-resources-support-student-success>.

### *Academic Integrity*

The academic enterprise is founded on honesty, civility, and integrity. As members of this enterprise, all students are expected to know, understand, and follow the codes of conduct regarding academic integrity. At the most basic level, this means submitting only original work done by you and acknowledging all sources of information or ideas and attributing them to others as required. This also means you should not cheat, copy, or mislead others about what is your work. Violations of academic integrity (i.e., misconduct) lead to the breakdown of the academic enterprise, and therefore serious consequences arise and harsh sanctions are imposed. For example, incidences of plagiarism or cheating may result in a mark of zero on the assignment or exam and more serious consequences may apply if the matter is referred to the President's Advisory Committee on Student Discipline. Careful records are kept in order to monitor and prevent recurrences.

## COPYRIGHT

All materials of this course (course handouts, lecture slides, assessments, course readings, etc.) are the intellectual property of the instructor or licensed to be used in this course by the copyright owner. Redistribution of these materials by any means without permission of the copyright holder(s) constitutes a breach of copyright and may lead to academic discipline. Audio or video recording of classes are not permitted without the prior approval of the Instructor.]

## ACKNOWLEDGEMENT

UBC's Point Grey Campus is located on the traditional, ancestral, and unceded territory of the xwm̓əθkwəy̓əm (Musqueam) people, who for millennia have passed on their culture, history, and traditions from one generation to the next on this site.

**COURSE SCHEDULE**

Prior to each sessions, students read the lecture notes and the relevant chapter(s) of the textbook.

Class#	CLASS TOPICS	ACTIVITIES / READINGS	WHAT'S DUE
Class 1	<b>Introduction</b>		
Class 1	<b>The currency market</b>	<i>ER, Ch 5</i>	
Class 1	<b>Currency forwards, futures and options</b>	<i>ER, Ch 5 and 7</i>	
Class 2	<b>Currency an interest rate Swaps</b>	<i>ER Ch 14</i>	
Class 2	<b>Management of foreign exchange exposure</b>	<i>ER Ch 8</i>	<i>News stories presentations</i>
Class 3	<b>Purchasing power parity (PPP)</b>	<i>ER Ch 6</i>	
Class 3	<b>Interest rate and exchange rate (UIP)</b>	<i>ER Ch 6</i>	
Class 3	<b>Models of exchange rate determination</b>	<i>ER Ch 2</i>	<i>News Stories presentations</i>