International Capital Markets with Focus on Asia

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【Course Outline / Description】

This course will cover the issues facing global companies and global investors as they participate in international financial markets. The course will look at global risk factors which companies and investors face and the possible tools for managing those risks. As such we will examine country risk, exchange rate risk, geopolitical risk, and contagion risk.

Close attention will be given to the concept and measurement of risk in financial markets. Risk and return comparisons between the United States and other countries will be presented.

Globalization of financial markets will be a major theme of the course throughout the semester. As such we will examine the impact of financial market globalization on both businesses and investors. We will look at cross border borrowing arrangements for companies. In addition, we will explore the opportunities and challenges of international portfolio diversification for investors.

While the course will be global in scope, particular attention will be paid to Asian financial market and economic issues. We will pay close attention to current events during the semester. We will monitor exchange rate changes, equity and bond market moves, important country data, and key central bank decisions. Many of these events will form the basis for class lectures and discussions.

We will examine specific exchange rate forecasting models for some of the world's major currencies. In that regard we will look at short-term approaches, such as the Asset Choice Model as well as longer term models such as the Purchasing Power Parity.   We will attempt specific forecasts with these models.

The format of this course is primarily lecture and discussion, with real-world in class assignments to help you make the linkage with global business firms and global investing as well as to gauge your understanding of the material.

【Course Objectives/Goals/Learning Outcomes】

1. To develop an understanding and appreciation of the critical financial issues facing managers of international firms and global investors in today increasing globalized world.
2. To develop a way if thinking about and analyzing the complex relationships of economies and financial markets around the world.

3. To develop an understanding and appreciation of current issues in the area of international finance through the introduction of on line web sites and readings and discussions of current articles in the financial press.

【Class Schedule/Class Environment, Literature and Materials】

	Schedule of Instruction	Work outside of Classroom Activities
Lesson 1	Introduction to International Finance	
Lesson 2	Risk On Risk Off (RORO) model	
Lesson3	Various measures of market risk	
Lesson 4	What Determines Financial Asset Prices?	
Lesson 5	Adaptive Model of Asset Prices	
Lesson 6	Efficient Market Model	
Lesson 7	Observations on Risk	
Lesson 8	Historical return data	
Lesson 9	Use of standard deviation	
Lesson 10	Systematic and Unsystematic Risk	
Lesson 11	Stock Betas	
Lesson 12	Diversification and Risk	
Lesson 13	The Capital Asset Pricing Model	
Lesson 14	Required return on a financial asset	
Lesson 15	Sharpe Ratio	
Lesson 16	Fundamental Versus Technical Analysis	
Lesson 17	Book value and the Gordon Growth Model	
Lesson 18	Bollinger Band and candlestick charting	
Lesson 19	The Efficient Frontier	
Lesson 20	Markowitz and Sharpe	
Lesson 21	Optimal Portfolio Line	
Lesson 22	Behavioral Finance	
Lesson 23	Investor physiology and emotions	
Lesson 24	Financial market bubbles.	
Lesson 25	The Foreign Exchange Market	
Lesson 26	Spot and Forward Quotes	
Lesson 27	Interest Rate Parity Model	
Lesson 28	Forecasting Foreign Exchange Rates	
Lesson 29	Strategies for Managing Risk	
Lesson 30	Forwards and Options	

The following lecture topics will constitute the lecture structure for this course.　While the topics are listed by week, the time frame for coverage may be different depending upon class and lecture circumstances.

Topic 1: Introduction to International Finance

This lecture will review some of the important issues in global financial markets today. In addition, this lecture will introduce you to the Risk On Risk Off (RORO) model that we will refer to throughout the semester as a way of explaining movements in global asset prices. We will also look at various measures of market risk, such as the CBOT VIX index and specific risk adverse assets, such as the Japanese yen and gold.

This lecture will also examine the potential opportunities and risk factors for global companies and global investors as they operate and invest across national borders. For global investors, we will examine potential opportunities such as higher returns and diversification benefits and potential risk factors such as currency risk, sovereign credit risk, and inflation risk.

As for global companies we will discuss potential opportunities such as expanding markets, increasing shareholder value, financing and lowering its weighted average cost of capital as well as some of the potential risks they face today, such as unanticipated social, political and economic instability, the danger posed by cyber attacks, and unanticipated movements in foreign exchange rates.

Topic 2: What Determines Financial Asset Prices?

In lecture 2 we examine the models for explaining asset prices. The lecture begins with the 1950s Adaptive Model of Asset Prices through Eugene Fama's Informationally Efficient Market Model of the 1970s. This lecture will explore how expectations shape financial asset prices and the impact of surprises on financial asset prices.

Topic 3: Observations on Risk

This lecture will examine historical return data (interest rates, exchange rates and equity prices) as an introduction to risk. We will examine some of the assumptions about risk and the use of standard deviation to measure and evaluate risk. We will use Excel to calculate standard deviations.

Topic 4: Systematic and Unsystematic Risk and Betas

This lecture will explore systematic and unsystematic risk as it relates to common stock. We will look as some recent examples of both. We will examine the use (and shortcoming) of betas to measure systematic risk. The lecture will also discuss the concept and performance of (international) diversification to reduce financial risk.

Topic 5: The Capital Asset Pricing Model

This lecture will examine the CAPM as a model for determining the theoretically appropriate required return on a financial asset. We will also explore the Sharpe Ratio as a risk adjusted performance measure.

Topic 6: The Financial Asset Selection Process: Fundamental Versus Technical Analysis

This lecture will compare and contrast two approaches to financial asset selection. We will apply fundamental analysis (book value and the Gordon Growth Model) to the analysis of selected companies. Under technical analysis we will apply selected techniques (e.g., the Bollinger Band and candlestick charting) to the investment decision.

Topic 7: The Efficient Frontier

The Markowitz and Sharpe Efficient Frontier (and Optimal Portfolio Line) will be discussed in this lecture.

Topic 8: Behavioral Finance

The role of investor physiology and emotions will be explored in this lecture. We will examine the role of behavioral finance in explaining some major financial market bubbles.

Topic 9:   The Foreign Exchange Market and Global Companies

In this lecture, we will look at the structure of the foreign exchange market and, specifically, how global companies use this market. With the use of real time on-line sites we will examine and monitor the foreign exchange market (bid and ask prices; American and European terms quotes, and spot and forward quotes).   We will also discuss how spot and forward market quotes are determined. For forward rate determination we will examine the Interest Rate Parity Model.

Topic 10: Forecasting Foreign Exchange Rates

This lecture examines various frameworks for forecasting foreign exchange rates.   We will consider both a short term (Using an Asset Choice Model) and a longer term (Using the Purchasing Power Parity) forecasting horizon.   We will attempt to forecast the euro and other currencies on the basis of these forecasting models.

Topic 11: Strategies for Managing Risk

In this concluding lecture we will discuss risk management strategies for global investors and global companies. We will examine the use of the foreign exchange market (forward rates and options market) by global companies to managed exchange rate exposure. This lecture will look at the use of credit default swaps to manage the risk of default on bonds.

【Textbooks/Reading Materials】

Articles and prepared readings (and cases) will be distributed to students throughout the semester

Section 4
【Learning Assessments/Grading Rubric】

Your grade for this course will be based on three exams. Exams will consist of essay questions from lectures and assigned readings. Questions will be designed to test your ability to connect concepts covered in class with real world events. Some questions will involve problem solving.   A calculator will be needed for this class for these exams.

Final course grades will be determined as follows:
Exam 1:   30%
Mid-Term Exam: 30%
Final Exam: 40%

Class participation will be strongly encouraged, but will not be a factor in determining final grade. The dates for these exams will be provided during the first week of class.

Letter grades will be based initially on a 90%, 80%, 70%, 60% format.   Adjustments to this format will be made during the semester as exams are given.   Plus and minus grades might be given.

Section 5
【Additional Information】

Prerequisites: Principles of Macroeconomics.

Required Supplies: Basic Financial Calculator.