



ECON360

International Finance

S2 Day 2014

Economics

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General Information

Unit convenor and teaching staff

Unit Convenor

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E4A 411

Wednesday 3-5pm

Tutor

Ha Vu

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E4A 429

Tuesday 12-1pm

Credit points

3

Prerequisites

6cp at 200 level including (ECON200 or ECON201 or ECON203 or ECON204)

Corequisites

Co-badged status

Unit description

The aim of this unit is to analyse the structure, functions and operations of the international financial system and to evaluate its impact on the Australian economy. Topics include: international capital flows and balance of payments; analysis of foreign exchange markets, arbitrage and speculation; discussion of purchasing power parity and real exchange rates; currency and commodity swaps; corporate management of exchange rate risk exposure in spot and forward markets; currency futures and options; Eurodollar markets; models of exchange rate determination; exchange rate forecasting techniques; international trade finance; international taxation; and foreign and direct portfolio investments; and international capital budgeting.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

Learning Outcomes

On successful completion of this unit, you will be able to:

To allow students to truly understand what to do when confronted with an international financial decision.

To provide students with analytical tools that enable them to research or engage with confidence in international business decisions.

To equip students with tools that enable them to understand the risks that businesses and investors may face in the international market, to recognize and know when and how to hedge such risks.

To prepare students to deal with real-world issues such as how fluctuations in exchange rates create risks and rewards for multinational corporations, and how those risks can be managed.

To extend students' numeric and writing skills which might help them to do a real data analysis and write a case-study report.

Assessment Tasks

| Name | Weighting | Due |
|--------------------------|-----------|-------------------------------|
| <u>Class Test</u> | 20% | Week 7 |
| <u>Review Essay</u> | 20% | 4pm Wednesday 15 October |
| <u>Final Examination</u> | 60% | University Examination Period |

Class Test

Due: **Week 7**

Weighting: **20%**

1. Your class test is 60 minutes. The class test will be held in place of the regular lectures in Week 7. It will be based primarily on the numeric/short answer tutorial questions and lectures presented from weeks 1 to 6.
2. Failure to attend the class test without the submission of an Application for Special Consideration on the grounds of illness or unavoidable mishap, together with the required supporting documentation, will result in a mark of zero for the assessment.
3. Students granted special consideration for the class test will have to sit a supplementary test during the mid-session break. The format of the supplementary test might not be the same as the original test.

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Review Essay

Due: **4pm Wednesday 15 October**

Weighting: **20%**

1. Write a 1600 word summary and evaluation of any single one of the three classic articles on international finance (listed in the *Delivery and Resources* section). A "review essay" is a summary of **your own words** of the article you have chosen to review, together with an appraisal of it. Your review essay should be about 50% summary and 50% appraisal. *Summary* means you summarize the main points and explain the chosen article in your own words. Figures, tables, or equations in the article may not be included in your essay. *Appraisal* means you express your thoughts about the article. For example, whether the article is full of insightful remarks, whether the article gives adequate consideration/analysis of the main issues, or if the article covers too much or too little ground, any additional aspects should be included in the article. Your bibliography can be minimal.
2. **Submit in BESS by 4pm Wednesday, 15 October.** You **MUST** keep a copy of the essay you submit.
3. Each essay must represent the student's own work. The copying of another student's essay, or from somewhere else is clearly regarded as plagiarism. All essays will be scanned by software that detects plagiarism. Cases of plagiarism will be dealt with severely. For further information on plagiarism and how to avoid it, please refer to the *Policies and Procedures* section.
4. Essays will be marked out of 20 marks. Late essays will be accepted up to 72 hours after the submission deadline. There will be a deduction of 20% of the total available marks for each 24 hour period, or part thereof, that the submission is late (for example, 25 hours late in submission means a 40% penalty). This penalty does not apply for cases in which an application for special consideration is made and approved. Failure to submit the essay will result a mark of zero for the assessment.
5. Marks will be deducted (20% of the total awarded mark) for essays that exceed more than 10% of the word limit indicated.

On successful completion you will be able to:

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- To prepare students to deal with real-world issues such as how fluctuations in exchange rates create risks and rewards for multinational corporations, and how those risks can be managed.
- To extend students' numeric and writing skills which might help them to do a real data analysis and write a case-study report.

Final Examination

Due: **University Examination Period**

Weighting: **60%**

1. The final exam will be held at a time and place to be announced in due course by the University. For details check: <http://www.timetables.mq.edu.au/exam>
2. It will be based on lectures and tutorials from weeks 1 to 13 (see below), with an emphasis on material presented after the class test.

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- To extend students' numeric and writing skills which might help them to do a real data analysis and write a case-study report.

Delivery and Resources

Required and Recommended Texts and/or Materials

Geert Bekaert and Robert Hodrick, 2012 (2nd edition), *International Financial Management*,

Pearson International. ISBN-13: 978-0-13-284298-3. Its associated website is <http://www.prenhall.com/bekaert>

Technology Used and Required

Unit Web Page

Students will be able to access the unit web page by using their normal university Student ID Number and Password on <http://ilearn.mq.edu.au>. Further help may also be provided by the Learning and Teaching Centre: <http://www.mq.edu.au/ltc>

Unit Schedule

| Week | Topic | Chapter |
|------|---|---|
| 1 | GLOBALIZATION/THE FOREIGN EXCHANGE MARKET | Chapters 1 - 2 (pp1-68) |
| 2 | FORWARD MARKETS & TRANSACTION RISK/THE BALANCE OF PAYMENTS | Chapters 3-4 (pp69-132) Extra reading: Becker, C & Fabbro, D (2006), "Limiting foreign exchange exposure through hedging: The Australian experience", Reserve Bank Discussion Paper. |
| 3 | EXCHANGE RATE SYSTEMS/INTEREST RATE PARITY | Chapters 5-6 (pp133 - 204) |
| 4 | SPECULATION & RISK/PURCHASING POWER PARITY & REAL EXCHANGE RATES | Chapters 7-8 (pp205 – 280) |
| 5 | EXCHANGE RISK/EXCHANGE RATE DETERMINATION & FORECASTING | Chapters 9-10 (pp281 – 353) |
| 6 | INTERNATIONAL DEBT & EQUITY FINANCING | Chapters 11-12 (pp354 – 427) |
| 7 | CLASS TEST | |
| | MID-SESSION RECESS (2 weeks) | |
| 8 | INTERNATIONAL CAPITAL MARKET EQUILIBRIUM/POLITICAL & COUNTRY RISK | Chapters 13-14 (pp428 – 520) |
| 9 | INTERNATIONAL CAPITAL BUDGETING/ RISK MANAGEMENT | Chapters 15-17 (pp521 – 615) Extra reading: Becker, C & Fabbro, D (2006). |
| 10 | FINANCING TRADE/WORKING CAPITAL/ FUTURES & OPTIONS | Chapters 18- 20 (pp616 –722) Extra reading: Becker, C & Fabbro, D (2006). |
| 11 | INTEREST RATE & FOREIGN CURRENCY SWAPS | Chapter 21 (pp723-753) Extra reading: Becker, C & Fabbro, D (2006). |
| 12 | REVIEW. | |
| 13 | Seminar on the Carry Trade | www.youtube.com/watch?v=A68bvGbvnlI |

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy http://mq.edu.au/policy/docs/academic_honesty/policy.html

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy http://mq.edu.au/policy/docs/grievance_management/policy.html

Disruption to Studies Policy http://www.mq.edu.au/policy/docs/disruption_studies/policy.html *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: https://students.mq.edu.au/support/student_conduct/

Academic Honesty

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

Grades

Macquarie University uses the following grades in coursework units of study:

- HD - High Distinction

- D - Distinction
- CR - Credit
- P - Pass
- F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at:

<http://www.mq.edu.au/policy/docs/grading/policy.html>

Grading Appeals and Final Examination Script Viewing

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

http://www.businessandeconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/grade_appeals/

Special Consideration Policy

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

http://www.mq.edu.au/policy/docs/special_consideration/policy.html

Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide

appropriate help with any issues that arise during their studies.

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

Graduate Capabilities

Discipline Specific Knowledge and Skills

Our graduates will take with them the intellectual development, depth and breadth of knowledge, scholarly understanding, and specific subject content in their chosen fields to make them competent and confident in their subject or profession. They will be able to demonstrate, where relevant, professional technical competence and meet professional standards. They will be able to articulate the structure of knowledge of their discipline, be able to adapt discipline-specific knowledge to novel situations, and be able to contribute from their discipline to inter-disciplinary solutions to problems.

This graduate capability is supported by:

Learning outcomes

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Assessment tasks

- Class Test
- Review Essay

- Final Examination

Critical, Analytical and Integrative Thinking

We want our graduates to be capable of reasoning, questioning and analysing, and to integrate and synthesise learning and knowledge from a range of sources and environments; to be able to critique constraints, assumptions and limitations; to be able to think independently and systemically in relation to scholarly activity, in the workplace, and in the world. We want them to have a level of scientific and information technology literacy.

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Assessment tasks

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- Review Essay
- Final Examination

Problem Solving and Research Capability

Our graduates should be capable of researching; of analysing, and interpreting and assessing data and information in various forms; of drawing connections across fields of knowledge; and they should be able to relate their knowledge to complex situations at work or in the world, in order to diagnose and solve problems. We want them to have the confidence to take the initiative in doing so, within an awareness of their own limitations.

This graduate capability is supported by:

Learning outcomes

- To provide students with analytical tools that enable them to research or engage with

confidence in international business decisions.

- To equip students with tools that enable them to understand the risks that businesses and investors may face in the international market, to recognize and know when and how to hedge such risks.
- To prepare students to deal with real-world issues such as how fluctuations in exchange rates create risks and rewards for multinational corporations, and how those risks can be managed.
- To extend students' numeric and writing skills which might help them to do a real data analysis and write a case-study report.

Assessment tasks

- Class Test
- Review Essay
- Final Examination

Effective Communication

We want to develop in our students the ability to communicate and convey their views in forms effective with different audiences. We want our graduates to take with them the capability to read, listen, question, gather and evaluate information resources in a variety of formats, assess, write clearly, speak effectively, and to use visual communication and communication technologies as appropriate.

This graduate capability is supported by:

Learning outcomes

- To allow students to truly understand what to do when confronted with an international financial decision.
- To provide students with analytical tools that enable them to research or engage with confidence in international business decisions.
- To extend students' numeric and writing skills which might help them to do a real data analysis and write a case-study report.

Assessment tasks

- Class Test
- Review Essay
- Final Examination