



ECON360

International Finance

S2 Day 2019

Dept of Economics

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Disclaimer

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General Information

Unit convenor and teaching staff

Unit Convenor

Geoff Kingston

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Credit points

3

Prerequisites

6cp at 200 level including (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:

Allow students to understand what to do when confronted with an international financial decision.

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

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.

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	Hurdle	Due
<u>Class Test</u>	20%	No	Week 7 (9 September)
<u>Assignment</u>	20%	No	Monday 30 September
<u>Final Examination</u>	60%	No	University Examination Period

Class Test

Due: **Week 7 (9 September)**

Weighting: **20%**

The test will take place in the first hour of the lecture in week 7.

Normal examination conditions will apply of course, and you must bring with you your official University ID card.

The test will be of 60 minutes, and a combination of true/false with explanation, problem-solving and short-answer questions. The tutorial questions set for Weeks 1 to 6 of the course give a good idea of the kind of questions on the test.

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 (see the *Policies and Procedures* section for details) will result in a mark of **zero** for the assessment.

If the application for Special Consideration is accepted, the student will have to take a supplementary test which could be an oral test.

On successful completion you will be able to:

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

Assignment

Due: **Monday 30 September**

Weighting: **20%**

Review essay: write a 1600 word summary and evaluation of any single one of the 2 instant classics on international finance that are listed below.

A “review essay” is a summary in your own words of the article you have chosen to review, together with an appraisal of it. Your appraisal could consist of your opinion on whether you found the article persuasive.

Your review essay should be at least 20% appraisal.

Review one of the following two articles:

1. International Monetary Fund 2019, Country Report No. 18/240

‘People’s Republic of China 2018 Article iv Consultation’

China is Australia’s biggest export customer. This IMF report summarizes the state of the Chinese economy & the outlook for it. No econometrics, but this article is 120 pages in length, and assumes some knowledge of macroeconomic concepts. Could suit people with business or policy interests.

2. Melvin, M and Shand, D, 2017, ‘When carry goes bad: the magnitude, causes, and duration of currency carry unwinds’,

Financial Analysts Journal , pp121-144.

Some elementary econometrics, but step around the econometrics if you wish. Characterizes loss-making episodes of the popular carry trade, i.e. the strategy of borrowing in low-interest currencies (e.g. the Swiss franc) and lending in high-interest currencies (e.g. the South African Rand.) Could suit people with business interests.

The Assignment must be submitted in hardcopy in the class of **Monday 30 September (Week 8)**.

Before the due date the assignment must also be submitted through 'Turnitin'. Assignments not submitted through this program will receive zero marks.

No extensions will be granted. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission – 20% penalty). This penalty does not apply for cases in which an application for Special Consideration is made and approved.

Severe penalties will apply for cases of plagiarism, up to and including exclusion from the unit.

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Final Examination

Due: **University Examination Period**

Weighting: **60%**

This two hour final exam will be held during the University Examination period.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations: <http://www.exams.mq.edu.au/>

The only exception to not sitting an examination at the designated time is because of **documented** illness or **unavoidable** disruption. In these circumstances you may consider applying for Special Consideration (See the Policies and Procedure section for details). If a Supplementary Examination is granted as a result of the Special Consideration process, the examination will be scheduled after the conclusion of the official examination period. Also, although the material coverage for the Supplementary exam would be the same as the final exam, **it may include only essay-type questions.**

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

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- 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 other resources

Required text:

Geert Bekaert and Robert Hodrick, 2017 (3rd edition), International Financial Management, Cambridge University Press.

www.wsj.com

Technology Used and Required

It is my expectation that the lectures of Econ360 will be recorded on the University's i-Lecture facility. This can be found at: <http://ilearn.mq.edu.au>

The iLearn facility at this same site will also be the main vehicle through which unit communications will be made, and via which students can communicate with each other.

Unit Schedule

Week 1 (Monday 29 July)

GLOBALIZATION/THE FOREIGN EXCHANGE MARKET Chapters 1 - 2

Week 2 (Monday 5 August)

FORWARD MARKETS & TRANSACTION RISK/THE BALANCE OF PAYMENTS Chapters 3-4

Extra reading: 1. Becker C, Fabbro D, 2006, "Limiting foreign exchange exposure through hedging: The Australian experience", Reserve Bank Discussion Paper.

2. Rush A, Sadeghian D, Wright M, 2013, "Foreign currency exposure and hedging in Australia", Reserve Bank Bulletin, pp49-57.

Week 3 (Monday 12 August)

EXCHANGE RATE SYSTEMS/INTEREST RATE PARITY Chapters 5-6

Week 4 (Monday 19 August)

SPECULATION & RISK/PURCHASING POWER PARITY & REAL EXCHANGE RATES
Chapters 7-8

Week 5 (Monday 26 August)

EXCHANGE RISK/EXCHANGE RATE DETERMINATION & FORECASTING

Chapters 9-10

Week 6 (Monday 2 September)

INTERNATIONAL DEBT & EQUITY FINANCING Chapters 11-12
Week 4 (Monday 19 August)
SPECULATION & RISK/PURCHASING POWER PARITY & REAL EXCHANGE RATES

Chapters 7-8

Week 6 (Monday 2 September) INTERNATIONAL DEBT & EQUITY FINANCING Chapters
11-12

Chapters 7-8

Week 5 (Monday 26 August)

EXCHANGE RISK/EXCHANGE RATE DETERMINATION & FORECASTING

Chapters 9-10

Week 6 (Monday 2 September) INTERNATIONAL DEBT & EQUITY FINANCING Chapters
11-12

Week 7 (Monday 9 September)

CLASS TEST, in place of lectures and tutorials. Value: 20%.

Monday 16 September – Sunday 29 September

MIDSESSION BREAK

Week 8 (Monday 30 September/Tuesday 10 October)

INTERNATIONAL CAPITAL MARKET EQUILIBRIUM/POLITICAL & COUNTRY RISK

Chapters 13-14

Week 9 (Monday 7 October)

No lecture—public holiday.

Week 10 (Monday 14 October)

INTERNATIONAL CAPITAL BUDGETING/RISK MANAGEMENT Chapters 15 -17

Extra reading: 1. Becker C, Fabbro D, 2006, "Limiting foreign exchange exposure through hedging: The Australian experience", Reserve Bank Discussion Paper.

2. Rush A, Sadeghian D, Wright M, 2013, "Foreign currency exposure and hedging in Australia", Reserve Bank Bulletin, pp49-57.

Week 11 (Monday 21 October)

FINANCING TRADE/WORKING CAPITAL/FUTURES & OPTIONS

Chapters 18- 20

Extra reading: see above

Week 12 (Monday 28 October) INTEREST RATE & FOREIGN CURRENCY SWAPS Chapter 21

Extra reading: Becker C, Fabbro D, 2006. Week 13 (Monday 4 November)

REVIEW

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central \(https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central\)](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)
- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#) (**Note:** *The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.*)

Undergraduate students seeking more policy resources can visit the [Student Policy Gateway \(https://students.mq.edu.au/support/study/student-policy-gateway\)](https://students.mq.edu.au/support/study/student-policy-gateway). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit [Policy Central \(http](#)

[s://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/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/study/getting-started/student-conduct>

Results

Results published on platform other than [eStudent](#), (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit ask.mq.edu.au or if you are a Global MBA student contact globalmba.support@mq.edu.au

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

If you are a Global MBA student contact globalmba.support@mq.edu.au

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources 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

- Allow students to understand what to do when confronted with an international financial decision.
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- 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.
- 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
- Assignment
- 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.

This graduate capability is supported by:

Learning outcomes

- Allow students to understand what to do when confronted with an international financial decision.

- Provide students with analytical tools that enable them to research or engage with confidence in international business decisions.
- 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.
- 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
- Assignment
- 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

- Provide students with analytical tools that enable them to research or engage with confidence in international business decisions.
- 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.
- 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
- Assignment
- 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

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

Assessment task

- Assignment