



Shanghai Jiao Tong University

FI431 International Finance

Instructor Information:	Lin Mi Home Institution: The University of Queensland Email: l.mi@business.uq.edu.au Office Hours: Determined by Instructor		
Term:	December 16, 2019- January 7, 2020	Credits:	4 units
Classroom:	TBD	Teaching Assistant(s):	TBD
Class Hours:	Monday through Friday, 160 mins per teaching day		
Discussion Sessions:	2 hours each week, conducted by teaching assistant(s)		
Total Contact Hours:	64 contact hours (1 contact hour = 45 mins, 2880 mins in total)		
Required Texts (with ISBN):	Cheol EUN and Bruce RESNICK (2018): International Financial Management, 8th edition, McGraw-Hill Education. ISBN: 9781259717789		
Prerequisite:	Students are expected to have a thorough knowledge of all material covered in an introductory finance course.		



Table of Contents

Course Overview	2
Learning Outcomes.....	2
Grading Policy	2&3
Class Schedule.....	4
Teaching Content.....	5&6
Assessment Details	7

Course Overview

The course extends financial decision-making to the international setting. Topics include the foreign exchange market, predicting exchange rate movements, hedging exposures with various derivative and other alternatives, the challenges of raising funds internationally and the process and documents of international trade. The course makes extensive use of case studies and there is an expectation that students will make recommendations to real life problems and justify their decisions. This is a challenging course with a significant theory content which requires lecture attendance and participation in addition to the appropriate independent study and thought to be successful.

Learning Outcomes

After successfully completing this course you should be able to:

1. Demonstrate a knowledge of the international monetary system, and an ability to calculate and interpret values for various exchange rate problems
2. Outline and apply theories of international finance which are used by firms to forecast exchange rates
3. Explain foreign exchange exposure and compare instruments and techniques available to manage it
4. Apply theories of international finance to case studies so as to analyse, evaluate and then articulate solutions to real world problems
5. Compare costs and sources of capital for international and domestic firms

Grading Policy

Mid-semester Exam	30%
Individual Assignment	20%
Final Exam	50%

Grading Scale

Number grade	Letter grade	GPA
90-100	A	4.0
85-89	A-	3.7
80-84	B+	3.3
75-79	B	3.0
70-74	B-	2.7
67-69	C+	2.3



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65-66	C	2.0
62-64	C-	1.7
60-61	D	1.0
≤ 59	F (Failure)	0



Class Schedule

Date	Lecture	Chapter
Day 1	Course Introduction and The International Monetary System	Chapter 1 & 2
Day 2	The Foreign Exchange Market	Chapter 5
Day 3	International Parity Conditions: Determinants of Exchange Rates I	Chapter 6
Day 4	Balance of Payments: Determinants of Exchange Rates II	Chapter 3
Day 5	Mid-semester Exam Review	Chapter 1,2,5,6 & 3
Day 6	Mid-semester Exam	
Day 7	Foreign Currency Derivatives	Chapter 7 & 14
Day 8	Foreign Exchange Exposure I: Transaction and Translation Exposure	Chapter 8 & 10
Day 9	Foreign Exchange Exposure II: Economic (or Operating) Exposure: Porsche case study	Chapter 9
Day 10	International Portfolio Theory and Diversification	Chapter 15
Day 11	Sourcing Global Capital & Political Risk: Cost of Capital and Source	Chapter 12, 13, 16 & 17
Day 12	International Capital Budgeting	Chapter 18 & 20
Day 13	ESG factors in International Markets	
Day 14	Course Review: Brief course and exam review	Chapter 7, 14, 8, 10, 9, 15, 12, 13, 16, 17, 18 & 20
Day 15	Final Exam	



Teaching Content

Day 1 Course Introduction and the International Monetary System

This topic discusses globalization, four major types of exchange rate mechanism (floating vs. fixed), and bitcoin.

Day 2 The Foreign Exchange Market

This topic discusses the characteristics of Forex markets, terminologies and calculations for spot and forward Forex markets, and triangular arbitrage.

Day 3 International Parity Conditions

This topic discusses the determinants of exchange rates I: Five parity conditions, including 1) purchasing power, 2 & 3) domestic/international Fisher Effect, 4) forward rate unbiasedness, and 5) interest rate parity.

Day 4 Balance of Payments

This topic discusses the determinants of exchange rates II: Five accounts, including 1) Current, 2) Capital, 3) Financial, 4) Net errors and omissions, and 5) Official reserves.

Day 5 Mid-semester Exam Review

This lecture reviews the first four topics.

Day 6 Mid-semester Exam

The mid-semester exam covers the first four topics. It includes a number of multiple choice and short-answer/calculation questions. See the Assessment Details Section for further information.

Day 7 Foreign Currency Derivatives

This topic discusses 1) Forex futures and forwards; 2) Forex options; and 3 & 4) single currency / cross currency interest rate swaps.

Day 8 Foreign Exchange Exposure I

This topic discusses transaction and translation exposure, how is it measured, methods of hedging transaction exposure (financial instruments vs. operational hedges).

Day 9 Foreign Exchange Exposure II

This topic discusses economic (or operating) exposure: why and how does it arise, how to measure, methods of hedging economic exposure. It also includes some real world examples.

Day 10 International Portfolio Theory and Diversification

This topic discusses the basics and benefits of international diversification (real and simulated datasets), measuring foreign investment performance, and home bias puzzle.

Day 11 Sourcing Global Capital & Political Risk

This topic studies capital market segmentation, political risk, basics of cost of capital, and international



bond and equity markets.

Day 12 International Capital Budgeting

This topic discusses how to evaluate foreign vs. domestic projects, how they differ, and parent vs. project cash flows.

Day 13 International Banking and International Banking in Australia

This topic describe the organizational forms that banks can use to conduct overseas operations, risks involved in international banking, and how the foreign operations of Australian banks and those of foreign banks in Australia are regulated.

Day 14 Course Review

This lecture reviews the topics covered throughout the course with a focus on the topics covered after the mid-semester exam.

Day 15 Final Exam

The final exam covers topics taught from Days 7-14. It includes a number of multiple choice and short-answer/calculation questions. See the Assessment Details Section for further information.



Assessment Details

Assessment Task 1: Mid-semester Exam

Task Description	The mid-semester exam covers the first four topics. It includes two sections. Section A has 15 multiple choice questions, each worth 1 mark. Section B contains 3 short-answer/calculation questions, for a total of 15 marks. Overall, the exam has 30 marks weighting 30% towards the final grade.	
Criterion Number	Criterion Description	Measures
1	Understand the four major types of exchange rate mechanism	LO1
2	Calculate and interpret values for exchange rate problems	LO1
3	Discuss the characteristics of Forex market	LO1
4	Understand triangular arbitrage	LO1
5	Understand the determinants of exchange rates	LO2
Task Length	Reading time: 10 minutes; Working time: 90 minutes; During reading time, write only on the rough paper	

Assessment Task 2: Individual Assignment

Task Description	Individually, students are required to 1) calculate the value of a foreign currency derivative, and 2) research and report on a recent piece of legislation that has implications for international finance.	
Criterion Number	Criterion Description	Measures
1	Calculate the value of a foreign currency derivative	LO1
2	Conduct analysis on the implications of a recent legislation	LO4
Task Length	Page limit: 8 pages excluding table of content, references and appendix. The task is due on Day 11.	

Assessment Task 3: Final Exam

Task Description	The final exam covers mainly the topics after the mid-semester exam, i.e. from Days 7-14. It includes two sections. Section A has 10 multiple choice questions, each worth 1 mark. Section B contains 5 short-answer/calculation questions, for a total of 40 marks. Overall, the exam has 50 marks weighting 50% towards the final grade.	
Criterion Number	Criterion Description	Measures
1	How to hedge foreign exchange exposure	LO3
2	Measure foreign investment performance	LO3
3	Understand international diversification	LO3
4	Understand political risk	LO5
5	Evaluate foreign projects	LO5
6	Appreciate the risks involved in international banking	LO5
Task Length	Reading time: 10 minutes; Working time: 120 minutes; During reading time, write only on the rough paper	