



DEPARTMENT OF FINANCE

THE UNIVERSITY OF TEXAS AT AUSTIN

Austin, Texas 78712-0217 • (512) 471-4368 • FAX (512) 471-5073

## **Fin f376: International Finance Summer 2016**

**71710: Mon.-Thurs. from 8:00am to 10:00am; CBA 4.326**

### **Overview of the Course**

**Instructor:** Dr. Roberto Santillan  
Visiting Professor  
Department of Finance

Office: CBA 6.212

Office Hours: Monday through Thursday, 10:30am -12:00am and by appointment.

Phone Number: 471-1426

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**Textbook:** Cheol Eun and Bruce Resnick, *International Financial Management*, Seventh Edition, (or Sixth Edition) McGraw-Hill.

**Course Description:** Finance 376 examines the price of domestic currency in terms of foreign currency: the exchange rate. It shows how currency markets reflect and shape the environment within which corporate wealth-maximizing decisions are made. The course is designed for upper-division undergraduate students who have a good understanding of basic economics, corporate finance and asset valuation.

**Course Objective:** This course has two primary objectives.

First: To develop a market-based understanding of exchange rate determination and show how exchange rate volatility affects corporate decision-making. Four major areas will be covered.

- The International Environment
- The Foreign Exchange Derivative Markets
- What Factors Affect Exchange Rates
- Foreign Exchange Exposure in the Firm

Second: To develop a general understanding of how do exchange rate markets function. The course will develop the institutional and quantitative details of markets, and also introduce a “financial” way of thinking about costs and risks.

**Prerequisites:**

Valuation theory and corporate financial decision-making from Finance 357, and an understanding of the basic economic concepts as covered in Eco 302 and 303.

### **Syllabus appendices**

A: Class Schedule and assignments

B: Evaluations

C: Supporting Materials

D: Course Policies

## APPENDIX A: SCHEDULE AND ASSIGNMENTS

### Appendix A: Schedule and Assignments

The dates in this schedule are approximate: the actual pace of the class and scheduling of quizzes will determine the speed of the course. Assignments are for 7<sup>th</sup> and 6<sup>th</sup> Editions, except readings for the 6<sup>th</sup> Edition are in brackets

#### Part I: The International Environment

1. Jun 2            **Course Introduction. Globalization and the Multinational Corporation**  
Reading: Eun & Resnick (ER) Chapter 1.
  
2. Jun 6            **International Trade and Foreign Exchange**  
Reading: (ER): Chapter 1; Appendix A  
Supplemental Readings  
Questions: ER Chapter 1: Questions 1 through 9  
Problems: ER Appendix A: Problems 1, 2
  
3. Jun 7            **3. International Monetary System**
4. Jun 8            Reading: ER Chapter 2  
Supplemental Readings  
Questions: ER Chapter 2: Questions 1 through 12
  
5. Jun 9            **4. Balance of Payments:**  
Reading: ER Chapter 3  
Supplemental Readings  
Question: ER Chapter 3: Question 1 through 12

#### Part I: Introduction to Foreign Exchange Markets

6. June 13        **5. Spot Market**  
Reading: ER Chapter 5: pp. 110-128 (6<sup>th</sup> Edition: pp. 112-129)
7. June 14        Questions: ER Chapter 5: Questions 1, 2, 3, 4, 6, 8, 9, 10  
Problems: ER Chapter 5: 1, 8, 9, 10, 11
  
8. **June 15**            **Test 1 (Topics 1, 2, 3, 4)**
  
9. June 16        **6. Forward Market**  
Reading: ER Chapter 5: pp. 129-134 (6<sup>th</sup> Edition: pp. 129-135)  
Questions: ER Chapter 5 : Questions 5, 7  
Problems: ER Chapter 5 : 2, 3, 4, 5, 6, 7, 12, 13

#### Part III: Forecasting Exchange Rates

10. Jun 20        **7. Exchange rates and interest rates**  
Reading: ER Chapter 6: pp. 139-148 (6<sup>th</sup> Edition: pp. 140-149)  
Questions: ER Chapter 6: Question 1, 2  
Problems: ER Chapter 6: 1 through 5, 8
  
11. Jun 21        **8. Exchange rates and prices**
12. Jun 22        Reading: ER Chapter 6: pp. 148-157 (6<sup>th</sup> Edition: pp. 149-158)  
Supplemental Readings  
Questions: ER Chapter 6: Questions 4, 5, 6  
Problems: ER Chapter 6: Problem 6, 7, 9

**Part IV: Derivative Markets**

13. Jun 23      **9. Futures Markets**  
Readings: ER, Chapter 7: pp. 172-179 (6th Edition : pp. 173-180)  
Questions: ER Chapter 7: 1, 2, 3, 4  
Problems: ER Chapter 7: 1, 2, 3, 4, 5

- 10. Options Markets**  
Readings: ER Chapter 7: pp. 180-190 (6<sup>th</sup> Edition: pp. 181-190)  
Questions: ER Chapter 7: 5, 6, 7  
Problems: ER Chapter 7: 8, 9, 10

14. **June 27 Test 2 (Topics 5, 6, 7, 8)**

15. Jun 28      **11. Swap Markets**  
Readings: ER Chapter 14  
Questions: ER Chapter 14: 1, 2, 3, 4, 5, 6, 7, 8, 9  
Problems: ER Chapter 14: 1, 2, 3, 4, 5, 6, 7

**Part V: Foreign Exchange Exposure and the Firm**

16. June 29      **12. Economic Exposure**  
17. June 30      Readings: ER Chapter 8, pp. 198-199 (6<sup>th</sup> Edition: pp. 198-199)  
Supplemental Reading  
ER Chapter 9, pp. 227-229; 233-244 (6<sup>th</sup> Edition: pp. 225-226; 230-241)  
Questions: ER Chapter 9: 1 through 11

18. July 5      **13. Transaction Exposure:**  
19. July 6      Readings: ER Chapter 8  
Questions: ER Chapter 8: 1 through 10  
Problems: ER Chapter 8: 1, 2, 3, 4, 5, 6

20. July 7      **14. Operating Strategies**  
Readings: Same as Topic 14  
Questions: Same as Topic 14  
Problems: Same as Topic 14

**Test 3: Saturday, July 9, 8-11am (Topics 9, 10, 11, 12,13 and 14)**

## APPENDIX B: EVALUATIONS

The evaluation consists of class participation, three tests given in class and a limited-comprehensive final.

### **Class Performance:**

**Purpose:** These questions encourage discussion and evaluate knowledge and proficiency.

**Value:** 5% of course grade. Each class will have from 5 to 15 questions directed at random to individual students. Students who are present and give good answers will receive a grade of 2. Students present but not giving a good answer will receive a grade of 1. Absent students will receive a grade of 0.

### **Tests:**

**Purpose:** These tests focus on selected major areas of international finance. This on-going feedback is crucial for your success in the course. Each part of the course builds on what has gone before. For example, if you do poorly in the first test, you probably will not have the foundation to do well on the second test.

**Value:** The tests comprise 100% of the course grade. The points for each test are: Test 1 (in-class) 30%; Test 2 (in-class) 30%; Test 3 (during finals period) 35%.

### **Test format**

The tests will consist of matching, fill-in-the-blank, essay and short answer and quantitative problems.

### **Procedures:**

The material to be covered and the nature of the questions will also be announced in advance. The final test will be given during the final exam period as scheduled by The University: Final exam: Saturday, July 9, 8:00am-11:00am.

A formula sheet for the course is on our Canvas site. In addition to the formula sheet, time value tables and scratch paper will be provided with your test. You need only bring a writing instruments and a hand calculator.

### **Grading:**

For each test, I will indicate a tentative letter grade for your test score. However, the final letter grade will be based on a relative frequency distribution (percentile ranking) of the total points accumulated over the entire summer. This approach implies that your final grade will be determined by the relative performance of the entire class. That is, there is no predetermined standard as to what constitutes an A, A-, B+, B, etc. You should therefore be careful about the cutoffs during the semester—you are not locked into a letter grade and if you are, for example, skirting the low-end of the B cutoff on the in-class tests you could easily slide into a course grade of C.

### **Test reviews:**

The tests will not be returned. After each test, times and places where you may go to review your individual test will be announced. Students who disagree with the grade assigned may, after the special review sessions, request a regrade of the examination. This request must be in writing, giving the question in contention and the reason why the student feels that the answer given is correct.

### **Test Policies**

Students missing a test without prior permission will receive the lowest grade awarded to students taking that quiz or test. Students missing a test with my permission will have the points for the missed test added to their Test 3. In addition, I reserve the right to give a final that differs from that given to the students who are taking the regular final.

Requests for excuse from a test must be made *in writing* (email is OK) and, except for extreme emergencies, prior to the test.

It is not necessary to purchase a special financial calculator for this course; however, calculators used in this course should have exponent, root and IRR functions.

No communications devices may be used during the test.

I will give notice when the time for a test has expired. I will give two minutes for students to complete their work and turn in their test. Students who do not turn in their test by the time I have indicated will have 5 points deducted from their test grade.



## **APPENDIX C: SUPPORTING MATERIALS**

**Textbook:** Cheol Eun and Bruce Resnick, *International Financial Management*, Seventh Edition, The McGraw-Hill Companies. The Sixth edition of this book may also be used. The text is an excellent one, and provides a well-written, detailed support for your efforts. It covers the materials in more depth than we can cover in class and provides many definitions, descriptions and examples that provide a comprehensive treatment of each topic.

**Solutions to End-of-Chapter Questions.** The solutions to all assigned end-of-chapter concept questions and problems are provided to enable you to check your work.

**Other Materials** Other materials such as additional examples web sites and videos may be added as the semester progresses.

## **D: COURSE POLICIES**

### **Course Policies**

"Make-up or extra work" to improve your grade is not possible. Your final letter grade is determined solely by your scores on the quizzes, final, and my evaluation of your class participation. In addition, no special considerations concerning your general academic situation can be offered. The final grade in the course, once assigned, will not be changed except in the event of a recording error.

No cheating!

If you do not attend a class it is entirely your responsibility to determine what you have missed, including any administrative announcements I may have made.

I will answer questions concerning the tests only in class, to ensure that all students receive the same guidance.

Use of calculators in the course will be addressed in more detail in the lectures. However, from the outset, it should be emphasized that the calculator cannot replace an understanding of the problem solving process.

### **Special University Notices**

#### **Students with Disabilities**

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

#### **Religious Holy Days**

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

#### **Policy on Scholastic Dishonesty**

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

#### **Campus Safety**

Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy.

- Remember that the nearest exit door may not be the one you used when entering the building.
  - Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
  - In the event of an evacuation, follow the instruction of faculty or class instructors.
  - Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
  - Behavior Concerns Advice Line (BCAL): 512-232-5050
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- urther information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.