INTERNATIONAL FINANCIAL MANAGEMENT  
CLASS CODE: AG434  
2019/20 SEMESTER 2

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CLASS AIMS  
Globalization of business is now a fact and no business entity could be argued to be operating in a purely local environment. In fact, the term local is gradually becoming outdated, arguably replaced by the term Global. This class is geared to achieve the objectives of honour’s year by motivating the critical discussions and debates on the operation of business finance in the global environment. Using text book, scientific empirical research outputs and application of the issues discussed in the lecture, this class aims to equip future global business leaders (you students) with the tools needed to:

- Appreciate the global financial management issues, puzzles and theories  
- Make sound global financial decisions  
- Manage the myriad risks that today’s businesses face in a competitive global environment  
- Appreciate the corporate strategic issues in international setting along with the associated international political and economic risks.

LEARNING OUTCOMES  
The following learning outcomes will contribute to your self-analysis and reflection in your Student’s Personal Development Planning (SPDP).

1. **Subject-specific knowledge and skills:**  
On completing this subject, students should:

- Appreciate the challenges and opportunities encountered by multinational corporations in a globalized world economy  
- Identify factors that influence foreign exchange rates  
- Distinguish between different exchange rate systems and the associated currency risks  
- Discuss the debates on purchasing power parity puzzle  
- Understand the motives for using international financial markets
Discuss the measurement and management of real exchange rate risk
Appreciate and evaluate the different asset pricing models of estimating cost of capital in international settings
Understand the role of key factors to be considered in international capital budgeting and determination of costs of capital
Analyse the key political and economic risk factors in international business

2. Cognitive abilities and non-subject specific skills

In addition to specific skills, students are also expected to develop the following cognitive, key and transferable skills:

- Competence in interpreting and evaluating international financial problems posed both in quantitative and non-quantitative terms;
- Ability to connect international academic theories to the practice of international financial management;
- Communication and writing skills will also be developed in the assignment project;
- Information technology skills in use of the class web-sites and links, word-processing in assessed projects; and
- Understand the language and observe the practice of international financial management industry by reading relevant academic and practitioner papers.

ASSESSMENT
The criteria used in assessment are set out on the last page of this outline and is the basis of marks achieved on the final examination and coursework. The weighting of the coursework and examination reflects the balance of learning outcomes associated with the different pieces of work.

Late submission of assignments will normally result in a penalty of 15%. Compelling reasons for lateness, such an illness or bereavement, must be documented and will be submitted to the honours board of examiners who will determine whether the penalty should be applied.

During the course of the semester there will be opportunities for you to assess your own progress in an informal manner (sometimes called ‘formative’ assessment) and there will be opportunities for you to receive formal assessment of your achievements that contribute to your final mark for the class (this is sometimes called ‘summative’ assessment). This document includes a pro-forma that will enable you to evaluate your achievement of the learning outcomes associated with this class. You can use this to help guide the emphasis you give to studying the various required components of the class.

Formal (summative) assessment will comprise:
1) Final written unseen examination paper in the April/May 2020 examination diet contributing 60% to the final mark. The exam will take 2 hours. The criteria used in assessment are given on page 15 of this class outline.
2) **Course work** (See detail below), contributing 40% to the final mark, is due **no later** Monday of week 8, 12 pm. The coursework will be a group effort with word limit of 1000 per student. Group will be allocated by the Lecturer.

**TEACHING AND LEARNING**
The subject will be delivered via a weekly 3 hour session and teaching methods will include blend of formal lecturing, analysis of real data, point-counterpoint debates and solving of empirical exercises.

**PREREQUISITES**
This class is designed for those who have successfully completed all requirements for the pass degree in the School of Business.

**PENALTIES FOR LATE SUBMISSION**
The Business School follows the University's policy for the late submission of assessed work:

https://www.strath.ac.uk/media/ps/cs/gmap/academicaffairs/policies/Policy_and_Procedure_for_the_Late_Submission_of_Coursework.pdf.pagespeed.ce.dLHAxb3k-D.pdf

**FEEDBACK**
The standard turnaround time for all feedback and marking within SBS is 15 working days from assessment submission.

The University policy on Assessment and Feedback is available here:

https://www.strath.ac.uk/media/ps/cs/gmap/academicaffairs/policies/Assessment_and_Feedback_Policy.pdf.pagespeed.ce.ugGorsUOnQ.pdf

**READINGS**

**Core reading**


There are a number of useful learning resources on the companion website of the Madura and Fox text at: http://www.cengage.co.uk/madura_fox/. The readings required for each lecture are indicated in the detailed class diary on page 7 of this class outline.

**Academic papers**

See the list on page 9.
Other Textbook References


Additional sources of information

1. Thompson Reuters Datastream is an extremely rich source of international financial data (currencies, stocks, bonds, macro statistics, etc.). This is available via the Departmental Computing Officer.
2. International Financial Statistics, published monthly by The International Monetary Fund, contains much financial and macroeconomic data for IMF member countries.
3. The Economist's Intelligence Unit publishes quarterly Country Reports and annual Country Profiles. These are good, for example, for details on countries’ foreign exchange regimes.
5. The National Bureau of Economic Research (NBER) produces a working paper series that contains current academic articles on international topics.
7. Financial Times
8. Wall Street Journal & Bloomberg

PLAGIARISM:
In submitting coursework, you are affirming that any and all sentences, graphs, charts, tables etc., not specifically attributed to another source are your own creation.

It is essential that you provide complete citations for all statements or analyses presented in your literature review that are derived wholly or in part from the works of others. To do otherwise is to present, as your own, the ideas, empirical evidence or analysis actually produced by someone else. This includes any materials you find published in source consulted by you, including any and all materials published (posted) on the internet. This specifically includes working papers posted on author(s)’ websites, departmental websites, special interest group websites and so forth.

Some students object that this will require a citation of a source after every sentence. This objection has no substance. If a citation is required and you supply it, this is taken as evidence of good scholarship and will be rewarded. If, however, a citation is required and you do not supply it, this will be considered poor scholarship (and points deducted) or plagiarism (the paper will be returned and you will be expected to offer an explanation). If the entire essay is composed of materials copied entirely from sources
found in the course of your research (including materials downloaded from the World Wide Web and presented as if said materials are of your own creation, you will fail this class and place your degree in jeopardy.

It is good record-keeping practice to maintain an evidence file for all written work submitted; this will enable you to support your usage of sources if this is questioned when the work is assessed. Since many students rely on the internet for their searches, you might find it wise to keep records of the path of those searches and the address of any sources downloaded so it can be cited in your references.

**GROUP COURSE WORK DESCRIPTION (Group of 6/7)**

**Theoretical and Empirical Survey of an Assigned Topic/Question**

One of the following topics/questions will be assigned to a nominated group and the list of members in each group along with the assigned topic will be posted on myplace.

1. What are the benefits and costs of financial liberalization?
2. What are the determinants of international cost of equity and how they differ in developed and emerging markets?
3. Do absolute and relative Purchasing Power Parities hold in short and long run? If not, why?
4. How do multinationals and portfolio investors manage foreign exchange risks?
5. Is current account deficit a problem: Evidence from the experience of developed and emerging markets?
6. Which exchange rate system is better: Fixed or floating?
7. Is Europe an Optimum Currency Area?
8. Why firms source debt internationally, and, more specifically, whether they exploit deviations from covered and/or uncovered interest rate parity?
9. Why firms issue stocks internationally, particularly using ADRs and GDRs?
10. Why firms use currency derivatives?
11. How country risks affect investments opportunities of MNCs?
12. Are central bank interventions in the foreign exchange market successful?

Your group needs to undertake a survey of the academic literature to evaluate the status of the assigned topic/question. It is very much similar to the literature review you undertook /or are undertaking during the completion of your recent dissertation.

Following is a proposed structure/content of your survey.

**************************************************

1. **Introduction**

   - States the issue/problem/question to be addressed.
- Define all the key concepts here.
- Why is this issue important and for whom.

2. **Theoretical literature**
   Discuss all the theories that have been developed explaining topic/question.

3. **Empirical literature**
   Provide a detailed write-up on empirical literature i.e. what have been investigated so far with detailed findings.

4. **Summary and critical analysis**
   - Summarize your survey and provide a critical analysis of the literature
   - Based on the critical analysis what gap/opportunities you have identified for further research.

5. **Conclusion**
   Write about a page or two on the overall conclusion you draw from the survey.

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**Resources**

1. Peer reviewed scholarly journal articles – 75% (From seminal to most recent)
2. Working papers – 25% (Most recent)

**Sources/Data bases:**

1. ABI/INFORM Complete - From our library website - go to list of database and select ABI/INFORM Complete - for peer reviewed scholarly journal articles.
2. SSRN - Financial Economics Networks - Free on Web – for recent working papers.

**Searching tips**

- Find out as many key words as possible related to your topic.
- Use these key words in the above mentioned search engines using "OR" "AND" combinations.
- Use the reference list of very recent published journals/working papers to find out major studies in your area, i.e. make use of cross-referencing.
- Group words that display similar concepts and characteristics to form strings.
- Use logical combination of these words to form strings.
- Truncate the words such as integrated* which will capture words like integrated and integration. Return* will capture return and returns etc.
- Test the databases (ABI/INFORM Complete, SSRN and Google Scholar) using the strings/words and check whether they will come up with similar results
- Systematically document the search results.
- Search for new terms/authors constantly throughout the review process.
Selection criteria of resources

The survey to study the phenomena could only be logical and evidence based if rigor has been applied in the studies and have been judged by a wide audience with specific expertise. As such, please exclude magazine, press articles etc. unless it’s a survey, as they lack scientific logic and verification. As such, as far as possible, majority of your readings should include 4-stars and 3-stars (ABS list) journals in Finance, Economics and Business areas. These should be around 75% of your literature review part. A list of the ratings is uploaded on myplace.

Further, please include the latest papers and the most seminal papers in your review.

A sample guide survey:

Word Limit: 500 words per student
**LECTURE DIARY (Tuesday, 11am – 2pm)**

<table>
<thead>
<tr>
<th>Week No.</th>
<th>Topic</th>
<th>Textbook readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Globalization</td>
<td>(MF, Ch. 1) and (BH Ch.1)</td>
</tr>
<tr>
<td>2</td>
<td>Balance of payment</td>
<td>(MF, Ch. 2) and (BH Ch.4)</td>
</tr>
<tr>
<td>3</td>
<td>Exchange rate systems</td>
<td>(MF, Ch. 6) and (BH, Ch. 5)</td>
</tr>
<tr>
<td>4</td>
<td>Purchasing power parity</td>
<td>(MF, Ch. 8) and (BH, Ch. 8)</td>
</tr>
<tr>
<td>5</td>
<td>Real exchange rate risk</td>
<td>(MF, Ch. 12) and (BH, Ch. 9)</td>
</tr>
<tr>
<td>6</td>
<td><em>Reserve week</em></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>International financial markets</td>
<td>Ch 3 (MF) and (BH, Ch. 11, 12 )</td>
</tr>
<tr>
<td>8*</td>
<td>Cost of capital in international setting</td>
<td>Web chpts. MF (pp. 25-43) and (BH, Ch13 )</td>
</tr>
<tr>
<td>9</td>
<td>Country risk analysis</td>
<td>Ch 15(MF) and (BH, Ch.14)</td>
</tr>
<tr>
<td>10</td>
<td>Capital budgeting in international setting</td>
<td>Ch 14(MF) and (BH, Ch. 15 &amp; 16)</td>
</tr>
<tr>
<td>11</td>
<td>Foreign currency hedging decision</td>
<td>BH, Ch. 17</td>
</tr>
</tbody>
</table>

*Coursework due (Monday of week 8, 12 pm). Please email me a soft copy of your course work.*
IMPORTANT READINGS: ACADEMIC PAPERS

All academic papers (see list below) are available from the University of Strathclyde library ABI/INFORM Global (ProQuest). Note that the above list is not exhaustive and further papers will be referred during the delivery of the course. Students also are expected to undertake their own independent review of literature.

Globalizations


Balance of Payment

Exchange Rate Systems


Purchasing Power Parity

Measuring and managing real exchange rate (economic) risks


International Financial Markets

Cost of capital in international setting


Country risk


International capital budgeting


Risk management and foreign currency hedging decision

### Criteria used in Assessment

<table>
<thead>
<tr>
<th>Overall</th>
<th>First class (70+)</th>
<th>Upper second (69-60)</th>
<th>Lower second (59-50)</th>
<th>Third (40-49)</th>
<th>Fail (below 40)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstration of <strong>excellent understanding</strong> of subject; work includes a clear plan of exposition, relevant examples and demonstrates a clear (not necessarily original) synthesis of required readings with evidence of independent research.</td>
<td>Demonstration of <strong>comprehensively good understanding</strong> of subject; work includes a clear plan of exposition, relevant examples and demonstrates a synthesis, of most of the required readings</td>
<td>Demonstration of <strong>generally good understanding</strong>; work shows some balance but not well planned; it includes some relevant examples. At least partial synthesis of required readings is demonstrated.</td>
<td>Demonstration of learning outcomes is satisfactory. Work demonstrates a somewhat superficial understanding, is poorly organised and with limited synthesis limited to a small number of required readings.</td>
<td>Poor performance in learning outcomes. Work is poorly structured and is quite superficial. Examples show no evidence of selection for relevance. No evidence of synthesis.</td>
<td></td>
</tr>
<tr>
<td>Quality of Analysis</td>
<td>High quality of conceptual understanding Logical formulation of interpretation of meaning</td>
<td>Good standard of analysis, focusing on the nature of the question and the balance of evidence presented to support the argument</td>
<td>Shows analytical skill but with some gaps in critical evaluation</td>
<td>Analytical skill is limited and heavily derived from the work of others.</td>
<td>No analytical skill shown.</td>
</tr>
<tr>
<td>Subject Specific Learning Outcomes</td>
<td>Excellent understanding of concepts. Comprehensive use of all required readings and independent research.</td>
<td>Very Good understanding of concepts. Thorough use of all required readings and some use of suggested readings</td>
<td>Good understanding of concepts and issues arising. Most of the required readings are referenced.</td>
<td>Basic understanding of concepts and issues arising, some stronger than others. Reference to some of the required readings.</td>
<td>Limited understanding of concepts. Little or no reference to required readings.</td>
</tr>
<tr>
<td>Cognitive Skills Learning outcomes:</td>
<td>Candidate’s own opinion is well developed and logically argued, demonstrating skill in linking all class readings to her interpretation.</td>
<td>Candidate’s own opinion is logically argued, demonstrating skill in linking her conclusions to all class readings</td>
<td>Candidate’s opinion is logically argued, however, relies on a limited subset of required readings.</td>
<td>Independent thought limited and limited ability to develop implications and inferences from evidence.</td>
<td>No evidence of ability to form an independent interpretation of materials.</td>
</tr>
</tbody>
</table>