UNIVERSITY OF TEXAS AT EL PASO
DEPARTMENT OF ECONOMICS AND FINANCE
FINANCE 4325, INTERNATIONAL FINANCE (CRN 22975), SECTION 001
12:00 - 1:20 PM TUESDAY AND THURSDAY, BUSN 318
SPRING 2015 SYLLABUS

INSTRUCTOR AND RELATED INFORMATION

Oscar Varela, Ph.D., CFA
Charles R. and Dorothy S. Carter Chair in Business Administration, and Professor of Finance
University of Texas at El Paso Emeritus Professor of Finance
University of New Orleans

Office: BUSN 235
Direct Office Phone: 915-747-7771
Department Phone: 915-747-5245
Student Office Hours: 10:20-11:20am Tuesday and Thursday
1:20-2:20p Tuesday and Thursday
and by appointment
Email: ovarela3@utep.edu

MATERIALS

Varela, Oscar, Lecture Notes and Problems, International Finance, posted on the course’s UTEP Blackboard site

Perusal of business publications, such as the Wall Street Journal, Financial Times of London, Barron’s, the Economist, and Business Week, especially regarding their international financial data

CATALOG DESCRIPTION/PREREQUISITE: FIN 4325: International Finance (3-0)
This course examines the financial operations of the firm from an international point of view. Topics include the history of international finance, foreign exchange markets, exchange rate determination, foreign exchange exposures (risks) for the multinational firm and techniques to hedge such exposures, international bond, equity and currency markets, trade documentation, and international capital budgeting. Economic, transaction, and accounting exposures and methods to mitigate these with foreign currency options, futures, forwards, and swaps are examined, as are the international business activities of countries (the balance of payments). Prerequisites: ECON 3320 or FIN 3310, each with a grade of "C" or better.
OBJECTIVE: The course examines the managerial implications pertaining to the financial operations of the firm and of investments in the international arena. The standard topics in international finance, such as the history of international finance, foreign exchange markets, exchange rate determination, foreign exchange risk (exposure), hedging techniques for that risk (using forwards, futures, options and swaps), international corporate valuation and capital budgeting, and sources of funds and the cost of capital in the international bond, stock, and money markets, are examined from a managerial point of view. The student should be able to answer questions and solve problems concerning international financial management in the course topic areas, and understand its core contents at the undergraduate level. Students will demonstrate an understanding of the techniques and practices of international finance in all these areas, with the added value of this course derived from the instructor’s objective of transferring this knowledge of the international finance literature efficiently and completely, and in as enjoyable a manner as feasible.

OUTCOMES AND MEASUREMENT:

- Outcome 1. Students will demonstrate knowledge of the international financial markets and investing therein.
- Outcome 2. Students will integrate knowledge of the foreign exchange market with exchange rate determination.
- Outcome 3. Students will demonstrate knowledge of contemporary history and current affairs in international finance.
- Outcome 4. Students will examine the international business and financial activities of countries (the balance of payments) and apply to import-export financing.
- Outcome 5. Students will demonstrate knowledge of international capital budgeting and the exposure of foreign investments.
- Outcome 6. Students will integrate understanding foreign exchange risk with hedging using forwards, futures and options on foreign exchange.

Outcomes measurements: Student achievement in course objectives will be assessed based on performance on exams and through in class participation/attendance.

STUDENT ACCOMMODATIONS: If you have or suspect a disability and need accommodations you should contact the Center for Accommodations and Support Services (CASS) at 747-5148 or at cass@utep.edu or go to Room 106 Union East Building.
REQUIREMENTS: Attendance is a requirement and is assumed and expected. Students missing more than 3 classes should seriously reflect on their commitment to this course, as missing classes is highly and directly correlated with poor performance. Students may be asked to produce evidence of their note taking and problem working efforts when seeking the instructor's advice on improving their performance, as key ingredients in improving performance are good note taking (which requires class attendance) and good problem working efforts.

Course grade to be determined by the weighted performance in the following categories, with the final course grade based on the 10 point scale, i.e. 90 percent is an A, 80 percent is a B, etc.

<table>
<thead>
<tr>
<th>EXAM</th>
<th>AVERAGE WEIGHT**</th>
<th>DATE</th>
<th>TIME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exam I</td>
<td>22.5 percent</td>
<td>Tue, Feb 10, 2015</td>
<td>12:00-1:20pm</td>
</tr>
<tr>
<td>Exam II</td>
<td>22.5 percent</td>
<td>Thu, March 19, 2015</td>
<td>12:00-1:20pm</td>
</tr>
<tr>
<td>EXAM III</td>
<td>22.5 percent</td>
<td>Thu, April 16, 2015</td>
<td>12:00-1:20pm</td>
</tr>
<tr>
<td>Final Exam</td>
<td>22.5 percent</td>
<td>Tue, May 12, 2015</td>
<td>1:00-3:45pm</td>
</tr>
<tr>
<td>Attendance</td>
<td>10 percent</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** While on average the weight per exam is 22.5 percent, the lowest exam grade will be weighed 12.5% and the highest exam grade will be weighed 32.5% in the calculation of the final course average. The remaining exams will weigh 22.5% each.

CLASS ATTENDANCE: Class attendance weighs for 10 percent of the final course grade. A zero will be allocated to one-fifth of this attendance weight when a student misses a lecture class for the second time in this course on days (and at the time) when the roll is (randomly) called. Cumulatively, a zero will be allocated to all 10% of this attendance weight when a student misses six lecture classes in this course on days (and at the time) when the roll is (randomly) called. Lecture classes are classes on days when an exam is not given – because there is a separate policy for missing exams. Exceptions to this full penalty for missing classes are possible on a case by case basis, but they will be limited to cases where the reason for missing class is completely beyond the student’s control or the student has an official university exemption for missing a class. Simply speaking, any student missing six or more classes on days (and at the time) when the roll is (randomly) called in this course will receive 0% credit on 10% of the final course grade, compared to those students equivalent in all other respects but with perfect attendance on days when the roll is (randomly) called.
EXAMS: Situational problem, mini-cases, essay and definitional type questions, and multiple-choice and true-false questions, will appear in the examinations. The final exam will be comprehensive, whereas all other exams will include on a non-cumulative basis only the material shown in the course outline.

MISSED EXAMS: Credit for a missed exam may be made-up ONLY IF:

(1) the reason for missing the exam is beyond the student's control, e.g. such as a medical excuse, jury duty, death in the family or automobile accident, or

(2) prior consent is obtained from the instructor for missing the exam based on a non-frivolous excuse, e.g. such as a job interview or out-of-town job related travel.

In either case, the student must submit a written and signed statement concerning the reasons for missing the exam, with appropriate documentation, and petition for a makeup.

A missed exam will carry a zero grade if these conditions are not met.

Otherwise, the first missed exam will be made-up in the comprehensive final exam, and will cause the final exam to weigh 45 percent rather than 22.5 percent in the final course grade. [If the final exam grade is the lowest (highest) exam grade and the final exam also makes up credit for a missed exam, then only the missed exam component of the final exam grade will be weighed 12.5 (32.5) percent as a lowest (highest) exam grade, whereas the final exam component will weigh 22.5 percent.] A student that misses more than one exam, presuming that the conditions for an approved make-up are met, will need to take an actual make-up of the missed exam at a time convenient to both the student and instructor.

Any student missing the Final Exam, presuming that the conditions for an approved make-up are satisfied, will need to take an actual make-up of the Final Exam at a time convenient to both the student and instructor. Students missing the Final Exam under approved conditions will receive (unless precluded by university rules) a grade of “I” (incomplete) for the course (unless the make-up can be conveniently scheduled before the university deadline for submission of grades). Students receiving a grade of “I” for missing the Final Exam will be responsible for making up the Final Exam at a time convenient to both the student and instructor. A make-up of the Final Exam because of an Incomplete grade is subject to university rules.

ACADEMIC HONESTY: Academic honesty is paramount to the existence of academic integrity in a course. During the taking of exams, no student in this course is to receive or give assistance to any other student in this course, nor should assistance through the use of unauthorized materials be used by anyone. In fulfilling other course requirements, work submitted by any student, or any assigned group of students in the
case of group projects, must be the original work of that student or group, with appropriate credit given when other sources are used.

Section 1.3.1 of UTEPs *Handbook of Operating Procedures* provides the basis for the academic administration of charges of scholastic dishonesty. The *Handbook* states: “Any student who commits an act of scholastic dishonesty is subject to discipline. Scholastic dishonesty includes, but is not limited to cheating, plagiarism, collusion, the submission for credit of any work or materials that are attributable in whole or in part to another person, taking an examination for another person, any act designed to give unfair advantage to a student or the attempt to commit such acts. Disciplinary proceedings may be initiated against any student for any of the following acts or omissions:

1.3.1.1 "cheating" includes:

a. copying from the test paper of another student, engaging in written, oral, or any other means of communication with another student during a test, or giving aid to or seeking aid from another student during a test;

b. possession and/or use during a test of materials which are not authorized by the person giving the test, such as class notes, books, or specifically designed "crib notes";

c. using, obtaining, or attempting to obtain by any means the whole or any part of non-administered test, test key, homework solution, or computer program, or using a test that has been administered in prior classes or semesters, but which will be used again either in whole or in part without permission of the instructor; or accessing a test bank without instructor permission;

d. substituting for another person, or permitting another person to substitute for one's self, to take a test; and

e. falsifying research data, laboratory reports, and/or other records or academic work offered for credit;

1.3.1.2 "plagiarism" means the appropriation, buying, receiving as a gift, or obtaining by any means another's work and the unacknowledged submission or incorporation of it in one's own academic work offered for credit, or using work in a paper or assignment for which the student had received credit in another course without direct permission of all involved instructors.

1.3.1.3 "collusion" means the unauthorized collaboration with another person in preparing academic assignments offered for credit or collaboration with another person to commit a violation of any provision of the rules on scholastic dishonesty.”
FIN 4325 COURSE OUTLINE

Attendance is assumed and expected and absences are penalized

29 Sessions / 15 Weeks

I. Week I. Session 1 Tue Jan 20
   The Course of the Course

II. Week I. Session 2 Thu Jan 22
   LECTURE 1 International Markets and Investing
      I. Introduction
      II. The Generic Paradigm of Financial Markets
      III. International Money Markets: Euro and Asian Currency Markets
      IV. International Bonds: Foreign Bonds and Eurobonds
      V. International Stocks
         A. Risk and Return
         B. Shares in Foreign Markets, Foreign Shares in Domestic Markets and Depository Receipts
         C. Exchange Traded Funds and Mutual Funds
      VI. Foreign Investments and Portfolio Diversification
      VII. Summary
   Questions and problems, all


III. Week 2. Session 3 Tue Jan 27
   LECTURE 1 Continued

1 The instructor reserves the right to revise the course outline, and slow down or speed up as the class pace dictates. Particularly emphasized will be the sections in the course outline that are in boldface.
IV. Week 2. Session 4 Thu Jan 29

LECTURE 2 The Foreign Exchange Market
I. Prologue
II. Foreign Exchange Market I (New York’s Wall Street Journal)
III. Foreign Exchange Market II (London’s Financial Times)
IV. Bid/Offer Quotes
   A. Bid/Offer Outright Quotes
   B. Bid/Offer Outright Quotes' Interpretations
   C. Cross Rates from Bid/Offer Outright Quotes
V. Appreciation and Depreciation
VI. Forward Premium and Forward Discount
VII. Speculation in Foreign Exchange
   A. Spot Market Speculation
   B. Forward Market Speculation
VIII. Black Markets in Foreign Exchange
IX. Summary

Questions and problems, all


V. Week 3. Session 5 Tue Feb 3

LECTURE 2 Continued


VI. Week 3. Session 6 Thu Feb 5

REVIEW International Financial Markets, Investing and Foreign Exchange Market

VII. Week 4. Session 7 Tue Feb 10 – EXAM 1
VIII. Week 4. Session 8 Thu Feb 12
LECTURE 3 Contemporary History and Current Affairs in International Finance
I. Impact of Flexible Exchange Rates in Contemporary History
   A. Foreign Exchange Risk
   B. Emergence of Derivatives Markets
II. History Before Flexible Exchange Rates
   A. Classical Gold Standard
   B. Classical Gold Standard Ends and Modified Gold Standard Begins
   D. Problems with Bretton Woods
III. The Jamaican Agreement, Flexible Exchange Rates and Recent Events
   A. The Jamaican Agreement and Efforts to Manage the Exchange Rate
   B. The European Union, the Euro, NAFTA and Other Trade Agreements
   C. Financial Crisis and Other Less Flexible Exchange Rate Systems
IV. Summary
Questions and problems, all

IX. Week 5. Session 9 Tue Feb 17
Return and Review Exam 1

X. Week 5. Session 10 Thu Feb 19
LECTURE 3 Continued

XI. Week 6. Session 11 Tue Feb 24
LECTURE 4 Foreign Exchange Forwards
I. Introduction
II. Market Interest Rates (Financial Times, 11/05/2002)
III. Covered Interest Rate Parity
   A. What is Interest Rate Parity?
   B. What Happens if Interest Rate Parity Does Not Hold
   C. Interest Rate Parity for the Euro and USD
      - No Covered Interest Arbitrage Opportunities for the Euro and USD
   D. Lack of Interest Rate Parity for the Euro and USD
      - Covered Interest Arbitrage Opportunities for the Euro and USD
IV. Equilibrium Conditions for Interest Rate Parity
V. When is Covered Arbitrage Feasible?
VI. Synthetic Bid and Offer Forward Quotes
   A. Synthetic Forward Bid Rate
B. Synthetic Forward Offer Rate

VII. Uncovered Interest Rate Parity

VIII. Forward Speculation Against a Change in Interest Rate Spreads

IX. Financial Value of a Forward Contract

X. Deviation from Interest Rate Parity
   A. 1978-1980 Japan
   B. 1970-1974 Germany

XI. The Unbiased Forward Rate and Interest Parity with Cointegration

XII. Summary

Questions and problems, 1,2,3,5

XII. Week 6. Session 12 Thu Feb 26
   LECTURE 4 Continued

XIII. Week 7. Session 13 Tue Mar 3
   LECTURE 5 Exchange Rate Determination
      I. Introduction
         A. Law of One Price in a One Currency World
         B. Law of One Price in a Multi-Currency World

      II. Classical Purchasing Power Parity
         A. Absolute Purchasing Power Parity
         B. Relative Purchasing Power Parity

      III. Currency Appreciation/Depreciation and Relative PPP

      IV. The Real Exchange Rate

      V. Efficient (versus Relative) Version of Purchasing Power Parity

      VI. Monetary Approach to the Theory of Exchange Rate Determination
         A. Monetary Approach with Absolute Purchasing Power Parity
         B. Monetary Approach with Relative Purchasing Power Parity
         C. Monetary Approach with the Quantity Theory of Money

         D. The Level of Support for the Monetary Approach

      VII. International Fisher Effect or Uncovered Interest Rate Parity

      VIII. Portfolio Balance Approach to the Exchange Rate

      IX. Foreign Exchange Forecasts and Interest Rate Parity

      X. Summary

      Questions and problems, 1,2,3,4,5,6,8,9,10

      LECTURE 5 Exchange Rate Determination - Sect I to IV, VI.A, VI.D, VII, IX, X

XIV. Week 7. Session 14 Thu Mar 5 (Spring break Mar 9-13)
   LECTURE 5 Continued

XV. Week 8. Session 15 Tue Mar 17
   REVIEW History, Forwards and Determination

XVI. Week 8. Session 16 Thu Mar 19 - EXAM 2

XVII. Week 9. Session 17 Tue Mar 24
   LECTURE 6 The International Business and Financial Activities of Countries
   I. Introduction to the Balance of Payments
      A. Credits and Debits, Surpluses and Deficits, and Balances
      B. Components of the Balance of Payments
   II. The Balance of Payments: The U.S., Japan and China
      A. Trade Deficits and Surpluses
         1. Debt Financing and the Balances of Trade and Payments
      B. Balance on Goods and Services
      C. Balance on Goods, Services and Income
      D. Balance on the Current Account
      E. Balance on the Capital and Financial Accounts
   III. Positive Analysis of Imbalances in the Balance of Payments
      A. Normative versus Positive Analysis
      B. Opportunity Costs of Surpluses and Deficits
   IV. Normative Views on the Balance of Payments
      A. U.S. Sales of its Assets to Foreigners?
      B. U.S. Vulnerability to Foreign Ownership of its Assets?
      C. Protective Measures?
      D. Values of Currencies?
   V. The Balance of Payment Positions of Other Countries
   VI. Monetary Approach to the Balance of Payments
      A. Overall Balance
      B. Monetary Equilibrium and Changes in International Reserves
      C. Changes in International Reserves and the Balance of Payments
      D. Balance in the Balance of Payments, International Reserves and Monetary Equilibrium
   VII. Efforts to Promote Trade
   VIII. Summary
      Selected Balance of Payments Statistics for 2006
   Questions and problems, all

XVIII. Week 9. Session 18 Thu Mar 26 (no class Tue Mar 31 – Cesar Chavez day)
   Return and Review Exam 2

XIX. Week 10. Session 19 Thu April 2
   LECTURE 6 Continued
XX. Week 10. Session 20 Tue April 7
LECTURE 7 International Capital Projects
I. Introduction
II. General Capital Budgeting for Domestic Projects
   A. Traditional Approach for Determining the Project’s Cash Flow
   B. Project Financing and the Weighted Average Cost of Capital
   C. Acceptance and Rejection Criteria: NPV and IRR
III. International Capital Budgeting
   A. Initial Pro Forma Balance Sheet for International (Foreign) Project
      1. Argentina (Foreign) Perspective
      2. Chile (Domestic) Perspective
IV. Special Issues for International Capital Budgeting: Franchise and License Fees, Export Profits, Tax Credits, Subsidies and Forecasts of Varying Exchange Rates
   A. Franchise or License Fees, Export Profits and Tax Credits
   B. Subsidies and Varying Exchange Rates
   C. Interest Charges
V. Summary
Questions and problems, all


XXI. Week 11. Session 21 Thu April 9
LECTURE 8 Credit and Delivery Exposure
I. Introduction
II. Arms-Length Exporting and Importing and Credit and Delivery Risks
   A. Credit Exposure - Will Exporter Receive Payment When Due
   B. Delivery Exposure - Will Importer Have Goods Shipped When Due
   C. The Settlement of Credit and Delivery Exposures – The Draft
   D. An Illustration of the System at Work
   E. Advantages and Disadvantages of this System and Related Issues
   F. Other Documents
III. Other Methods of Arms-Length Exporting And Importing Trade
IV. Government Efforts to Promote Exports: The U. S. Export-Import Bank, Foreign Credit Insurance Association, Private Export Funding Corporation and Overseas Private Investment Corporation
V. Summary
Questions and problems, all

XXII. Week 11. Session 22 Tue April 14
REVIEW Business and Financial Activities of Countries, International Capital Projects, and Credit and Delivery Exposure

XXIII. Week 12. Session 23 Thu April 16 - EXAM 3

XXIV. Week 12. Session 24 Tue April 21
LECTURE 9 Economic Exposure
I. Introduction
II. Economic Exposure When Currencies Depreciate
   A. A European Firm’s Economic Exposure from its Investment in a Mexican Firm
   B. Static Analysis – No Change in MXN Cash Flows after MXN Depreciates
   C. Dynamic Analysis Scenario I for Currency Depreciation
   D. Dynamic Analysis Scenario II for Currency Depreciation
III. Economic Exposure When Currencies Appreciate
   A. A European Firm’s Economic Exposure from its Investment in a Chinese Firm
   B. Static Analysis – No Change in CNY Cash Flows after CNY Appreciates
   C. Dynamic Analysis Scenario I for Currency Appreciation
   D. Dynamic Analysis Scenario II for Currency Appreciation
IV. Hedging Economic Exposure Through Diversification
V. Other Variations in the Analysis of Economic Exposure
VI. Summary
Questions and problems, all

XXV. Week 13. Session 25 Thu April 23
Return and Review Exam 3

XXVI. Week 13. Session 26 Tue April 28
LECTURE 9 Continued


XXVII. Week 14. Session 27 Thu April 30
LECTURE 10 Foreign Exchange Futures
I. Introduction
II. Foreign Currency Futures Quotations
III. General Concepts for Hedging With Currency Futures
IV. Foreign Currency Futures Speculation
V. Futures Cost of Carry and Interest Rate Parity
VI. Futures Prices, Forward Prices and Interest Rates
VII. Hedging With Futures: Optimal Hedge Ratio
VIII. Combined Delta-Cross Hedge Ratio
IX. Delta Hedge
X. Cross Hedge
XI. Delta-Cross Hedge Ratio Regression Approach
XII. Perfectly Matching Hedge Ratio
XIII. Summary
Questions and problems, 1,2,3,4

XXVIII. Week 14. Session 28 Tue May 5
LECTURE 11 Foreign Exchange Options
I. Introduction
II. Foreign Exchange Option Quotations
III. Holding Calls on Currencies: Features, Speculation, Hedging
IV. Holding Puts on Currencies: Features, Speculation, Hedging
V. Other Examples for Hedging With Currency Options
VI. Writing Calls and Puts On Foreign Currencies
VII. Foreign Currency Call Option Pricing Theory
VIII. Put-Call Parity, and Foreign Currency Put Option Pricing Theory
IX. Valuing Calls and Puts Using Forward Exchange Rates
X. Summary
Questions and problems, 1,2,3,4

XXIX. Week 15. Session 29 Thu May 7
COURSE SUMMARY

Final Exam, Tuesday May 12, 2015, from 1:00pm to 3:45pm

Holdout lectures on Accounting Exposure, Payment Exposure or Currency Swaps with this material selectively covered if time permits.
### International Finance - 22975 - FIN 4325 - 001

**Associated Term:** Spring 2015  
**Registration Dates:** Oct 06, 2014 to May 07, 2015  
**Levels:** Undergraduate  
**Attributes:** Busn Bachelor's Course (AACSB)  
**Public Access to Course Information:** Oscar Varela (P)  
**Course Fee(s):** None.

- View my Books  
- Main Campus Campus  
- Lecture (LECT) Schedule Type  
- 3.000 Credits  
- View Catalog Entry

#### Scheduled Meeting Times

<table>
<thead>
<tr>
<th>Type</th>
<th>Time</th>
<th>Day(s)</th>
<th>Where</th>
<th>Date Range</th>
<th>Schedule Type</th>
<th>Instructors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class</td>
<td>12:00 pm - 1:20 pm</td>
<td>TR</td>
<td>College of Business Admin 318</td>
<td>Jan 20, 2015 - May 07, 2015</td>
<td>Lecture (LECT)</td>
<td>Oscar Varela (P)</td>
</tr>
</tbody>
</table>

ADA Accessible