

Chapter 0 – Introduction to International Finance

Many of the concepts and techniques are the same as the one used in other Finance classes (Investments, Corporate). For example, an international bond is valued using the same NPV formulas used to value a domestic bond. The CAPM also applies to Japanese or Mexican stocks.

Q: What makes international Finance different?

A: Two distinctive features & associated risks:

- Exchange Rates ⇒ FX Risk
- Different National Policies ⇒ Country Risk

Topics to be Covered

- Exchange Rates, FX Markets, and Determinants of Exchange Rates. (Chapters 3, 4)
- FX Derivatives (Futures, Forwards, Options) (Chapters 5, 11)
- Government Role and Intervention in FX Markets (Chapter 6)
- Arbitrage and Equilibrium in the FX Market (Chapters 7, 8)
- Forecasting Exchange Rates (Chapter 9)
- FX Risk, FX Risk Management (Chapters 10, 11, 12)
- Direct Foreign Investment (DFI), International Diversification (Chapter 13)
- Multinational Capital Budgeting (Chapter 14)
- Country Risk and Discount Rates (Chapter 16)
- Cost of Capital for MNCs (Chapter 17)
- Long-term Financing (Bonds, Swaps) (Chapter 18)
- Short-term Financing and Borrowing (Chapters 20, 21)

Background Concepts that you should know (we'll review some of the concepts in class)

- Supply and Demand (Chapter 3, 4)
- Basic concepts of Monetary Policy (Central Bank behavior, Open Market Operations) (Chapter 6)
- Arbitrage and Equilibrium (Chapter 7, 8)
- Expected value, Variance and Covariance, Correlation Coefficient (Chapter 8, 9, 10, 11, 20, 21)
- Probability Distribution (Chapters 5, 8, 9, 10, 11, 12, 20, 21)
- Regression, Testing Null Hypothesis (Chapter 8, 9, 10, 12)
- CAPM, β (Chapter 13, 17)
- NPV, discount rates (Chapter 14, 15, 16)
- Basic Bond Pricing Concept (Par, YTM, spread, bps, etc.) (Chapter 18)
- The Term Structure of interest rates (Chapter 18)