

International Financial Management (B40.3388.10)

Fall 2002

Prof. Jeffrey (YuQing) Shen

Tue 6:00pm to 8:50pm

Room: Tisch 201

Course Objectives

This course delivers the theoretical framework, the quantitative tools and the practical issues that are critical for international financial management. Students taking this course should expect to learn the characteristics of **international financial markets** and the nature of **financial management in the international context**. The topics of this course are important for not only the financial management of the multinational enterprises, but also international portfolio investment decisions. Emphasis is placed on factors that differentiate international from domestic financial management.

Course Overview

We will cover five main topics:

- 1) **Foreign exchange market** and exchange rate determination
- 2) Multinational corporation's **investment** decision
- 3) Multinational corporation's **financial** decision
- 4) **Derivative** securities for currency risk management
- 5) International capital markets and **international portfolio investment**

Instructor Information:

Prof. Jeffrey (YuQing) Shen

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Instructor Bio

Jeffrey (YuQing) Shen, vice president, is the head of asset allocation research in the Asset Allocation Service Group in JP Morgan Fleming Asset Management. He is responsible for global tactical allocation research, global investment strategy and institutional client service. A JP Morgan employee since 1997, Jeffrey has worked in the portfolio advisory function in London advising European clients. Prior to that, he worked for J.P. Morgan in New York on hedge fund product development and risk management research. Jeffrey holds a B.A. from Hobart College and a Ph.D. in finance from Stern School of Business, NYU.

The Course on the Internet

We will make use of the Internet for lecture notes, resource materials and communication. Indeed this course outline itself will change: the definitive version is the Web site at Prometheus (<http://courses.stern.nyu.edu>). Students who have registered for the class should have automatic access to the class site when you log into Prometheus. Most of the class materials can be downloaded from Prometheus.

Prerequisites

Foundation of Finance. Some familiarity with statistics.

Readings

The textbook is "**Multinational Finance**", 2nd Edition, by Kirt Butler, South-Western Publishing Company 2000. Most of the additional reading materials (from various academic and Wall St. sources) are posted on the web.

Pedagogy

The course employs class lectures, discussions, case studies and homework problems. We will make use of international as well as domestic examples. Case studies and homework problem assignments will be prepared individually and some in groups. Each student will be expected to participate actively in class discussion. There will be a mid-term exam and a final exam.

Grading

The course grade will be determined as following:

Class Participation*10% + Homework*20% + Mid-term Exam* 30%+ Final Exam*40%

Course Outline:

- An Introduction to International Financial Management and Course Overview

PART ONE Foreign Exchange Markets and Exchange Rate Determination

- 1) The Foreign Exchange and Eurocurrency Markets
- 2) The International Parity Conditions
- 3) Currency Risk and Currency Forecasting

PART TWO The Multinational Corporation's Investment Decisions

- 1) Cross-Border Capital Budgeting
- 2) Real Options and Cross-Border Investment

PART THREE The Multinational Corporation's Financial Decisions

- 1) The Rationale for Hedging Currency Risk
- 2) Measure and Manage Exposure to Currency Risk
- 3) Multinational Capital Structure and the Cost of Capital

PART FOUR Derivative Securities for Currency Risk Management

- 1) Currency Futures and Futures Markets
- 2) Currency Options and Options Markets
- 3) Currency Swaps and Swaps Markets

PART FIVE International Capital Markets and International Portfolio Investment

- 1) International Capital Markets
- 2) International Portfolio Diversification
- 3) International Asset Pricing
- 4) Managing an International Investment Portfolio