

**COURSE TITLE: INTERNATIONAL FINANCIAL MANAGEMENT**

**COURSE CODE: MBAFA 7306**

**HOURS TAUGHT: 3 HRS PER WEEK**

**PREREQUISITES: NONE**

### **PURPOSE OF COURSE**

This course offers an overview of international financial markets, including the basic elements of commercial and investment banking and financial management at the global levels.

### **EXPECTED LEARNING OUTCOMES**

By the end of the course students should be able to:

- Explain the key international financial market prices
- Discuss the Spot and forward exchange rates, currency option prices and swap rates
- Explain the important pricing relationships and the characteristics of innovative financial products.
- Discuss the competitive performance among the players in the international financial service industry, covering a range of commercial and investment banking activities carried out internationally.

### **COURSE CONTENT**

**The foreign exchange Market, Market Microstructure and Financial innovation.**

- Foreign exchange market participants.
- Institutional features, dealing risks.
- Market size growth and trading patterns
- Topics in market microstructure
  - Quote shading versus inventory adjustment
  - Sources of trader profits
  - Compensation and the bid – ask spread.

**Innovations based on covered interest arbitrage.**

- Long term forward contracts
- Swamp – driven issues
- Super synthetic commercial paper.

### **Efficiency of Foreign Exchange Market and Forecasting Exchange Rate**

- Theory of exchange market efficiency
- Technical trading models.
- Trading models and the currency overlay.
- A taxonomy of approaches to forecasting exchange rates
- Forecasting exchange rate jumps and crashes
- Forecasting exchange rates in the long run.
- Forecast performance evaluation.

### **The Offshore Markets : Euro currencies and Euro bonds**

#### **Eurocurrencies;**

- First principles – credit creation, institutional setting;
- Market size location of off shore centres;
- Determination of Euro currency deposit rates;
- Risk of Euro currency deposits;
- Competitive responses to offshore market.

#### **Eurobonds**

- Background market dimensions , currency composition
- Regulatory and institutional features;
- Primary market – competitive condition, the gray market;
- Problems and risks – excess competition, conflicts of interest;
- Pricing of Eurobonds, arbitrage opportunities;
- Global bond funds, with and without currency hedging

### **Foreign Currency Options**

- First principle – Terminology, contract specifications
- Pricing of currency options
  - Discrete time binomial approach;
  - Continuous time log normal approach;
  - Options on spot and options on futures;
  - The impact of early exercise;

- Pricing relationships – put – call forward parity.

### **Estimation of spot currency volatility**

- Historical estimates
- Implied volatility
- Time varying volatility
- Practical problems with empirical estimates.

### **Management of trading position risks**

- Delta hedging
- Gamma and Theta risk

### **Currency Swaps and Interest Swaps**

- Background – Origins of swaps, comparative advantage
- Market size, market structure
- Institutional features – accounting treatments, notional value, master swap agreement.
- Cash flow requirements in interest rate and currency swap
- Risk of swaps
- Risk measurement – amortization and diffusion effects;
- Applications of swaps
- Pricing of swaps

### **Reconfiguration of Global Commercial and Investment Banking**

- Developments in international debt and equity markets
- Deregulation
- Institutionalization
- Securitization
- Globalization
- Technological change in the financial infrastructure
- Cross border exposures – tracking and valuation
- Problem of regulation and risk control.

### **Loan syndication and Project Finance**

- Principles of international bank finance
- International versus domestic credits
- Commercial paper and Euro – CP

- Alternative forms of medium term international loans and revolving credit lines
- Straight medium – term lending and loan syndication
- Global bond financing
- Convertible and warrants
- Assets – based securities.

### **International Equity Finance, Mergers and Acquisitions**

- Primary international equity markets
- Secondary markets for equity securities.
- Cross – border portfolio considerations
- Arranging new equity issues
- World wide equity issues
- Privatization programs
- Foreign acquisitions versus green – field projects
- Mergers and acquisitions
- Assessment of risks and returns
- Role of the investment banker

### **Global Asset Management**

- The global investor
- Pension funds
- Mutual funds
- Private clients
- Insurance companies
- Portfolio performance
- Structural change.

### **Competitive Strategy and Execution in International Financial markets**

- Review of the theory of multinational enterprise
- Application to international banking
- Criteria for competitiveness
- Price and non – price competitive variables.
- Measures and determinates of performance
- Barriers to international banking competition
- Market positioning

- Management philosophy
- Geographic versus industry design
- Competing for multinational corporate clients
- Profit attribution
- Resource management and allocation
- Integrated risk management and control.

### **MODE OF DELIVERY**

- Lectures
- Reading assignments
- Practical assignments
- Field trips
- Documentaries

### **INSTRUCTIONAL MATERIALS AND / OR EQUIPMENT**

- Whiteboard and Markers
- Flip Charts
- LCD Projectors
- CDs, DVDs and Tapes

### **COURSE ASSESSMENT**

- Continuous assessments tests 20%
- Group and individual project (course work) 20%
- End of Semester Examination 60%

### **READING MATERIALS / LIST**

Smith and Walter, Global Banking, Second Edition.

Richard M. Levic,(2001). International Financial Markets; Princes and Policies, 2<sup>nd</sup> Edition. New York : Irwin, McGraw – Hill.

Ingo Walter, (2004). Mergers and Acquisitions in Banking and Finance New York:  
Oxford University Press.

