

THE UNIVERSITY OF NORTH CAROLINA AT GREENSBORO
Joseph M. Bryan School of Business and Economics
Master of Business Administration Program
Fall 2006

Course Number: MBA 630.11
Course Title: Global Financial Markets
Professor: Dr. Jeffrey Woo
Consultation Hours: Office Hours will be provided by appointment.
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E-Mail: jwoo@averett.edu
Class Hours: 1830 to 2130
Location: Room # 132
Dates: Thursday Sessions: 10/19, 10/26, 11/2, 11/9, 11/16, 11/18 (Saturday), & 11/30.

The November 18th class will be on Saturday starting at 1200 noon.
The November 30th class session will be cancelled.

Required Texts:

International Financial Management. (8th Ed.) Madura, Jeff. Thomson/South-Western (2006). ISBN# 0-324-28841-7.

Prerequisites: Students enrolled in this course should already have taken MBA 605: Financial Management and MBA 613: Economic Policy Global Environment. Note: MBA 625 is strongly recommended as a prerequisite.

Purpose: MBA 630 is designed to provide a broad overview of the global financial markets. Its purpose is not to make you “experts,” but to provide you with a basic understanding of what managers need to know about the markets and the instruments that populate the financial landscape.

Course Objective:

Global Financial Markets will examine the international financial environment, exchange rate behavior, exchange rate risk management, long-term asset-liability management, and short-term asset-liability management. Global markets, exchanges and associations will be reviewed.

Basic theories and risks for the MNCs will be discussed. Topics will include: the international flow of funds, international financial markets to include the Eurocurrency market and the affect on MNCs, a review of exchange rate determination, an introduction to currency derivatives and put-call parity will be addressed, a discussion upon the governmental affects on exchange rates and monetary policy will include a length examination of the Asian Crisis using the IMF’s website and article research, interest rate parity and purchase power parity will be addressed to include the Big Mac Index and the International Fisher Effect, the forecasting exchange rates and the issues of translation exposure, economic exposure, and translation exposure will be addressed, long-term asset and liability management to include a focus on FDI, Foreign Direct Investment, multinational capital budgeting, multinational restructuring and valuation processes, country risk analysis to include expropriation and re-patronization risk will be addressed, and multinational cost of capital relative to the MNC’s capital structure will be discussed, financing international trade, and international cash management will conclude the material for the course. A corporate analysis of a MNC’s FDI and international operations will be performed by the conclusion of the course.

We will spend a good bit of time discussing the financial markets, financial instruments, and what constitutes good analysis and decision-making. It is our collective responsibility to contribute to that discussion in a substantive way. The assignments for each session should guide your preparation so that you will be able to contribute in a meaningful way. Regular reading of the *WSJ International (Section A)* will also keep you tuned to current events in the global capital markets. If significant events occur, we may modify our original schedule accordingly to incorporate the event(s).

Course Requirements / Grades:

Grading System:

| | | | | |
|-------------------------------------|-------------|----|---|------------|
| Blades Cases (10) | 50% | A | = | 93+ |
| Final Exam | 30% | A- | = | 92-90 |
| Topic Presentations | 5% | B+ | = | 89-87 |
| For-ex | 5% | B | = | 86-83 |
| U.S. Corporate International Report | 5% | B- | = | 82-80 |
| World Market Exchange Presentation | 5% | C+ | = | 79-76 |
| Total | 100% | C | = | 75-70 |
| | | F | = | 69 & Below |

Session Assignments:

Session One: October 19, 2006.

Syllabus Review & Course Expectations.

Chapter 1: The International Financial Environment

Topics: Competitive Advantage, Imperfect Markets, International Business Methods: International Trade, Licensing, Franchising, Joint Ventures, M&As, New Foreign Subsidiaries via FDI, Domestic vs. International Corporate Valuation Model.

Blades Case, page 30.

Chapter 3: International Financial Markets

Topics: History of Foreign Exchange, Bretton Woods Agreement, Smithsonian Agreement, Bid/Ask Spreads, Components of the Spread, Direct vs. Indirect Quotations, Cross Exchange Rates, International Money Markets, Basel I & II Accords, International Credit Markets, LIBOR & ADR's <http://www.adr.com/>.

Questions: 6, 7, 10 & 11.

Blades Case, page 85.

Session Two: October 26, 2006.

Chapter 2: International Flow of Funds

Topics: Balance of Payments, Current Account, Capital Account, Tariffs, Quotas, Voluntary Export Restraints, Impact of Exchange Rates relative to Price Elasticity, IMF, SDR's, & the World Bank.

Blades Case, page 55.

PRESENTATIONS:

IMF <http://www.imf.org/external/about.htm>,

World Bank <http://www.worldbank.org/>,
IBRD, IDA, IFC, MIGA & ICSID.

WTO/GATT http://www.wto.org/english/thewto_e/thewto_e.htm,

NAFTA http://www.nafta-sec-alena.org/DefaultSite/index_e.aspx?DetailID=78,

EU Central Bank <http://www.ecb.eu/home/html/index.en.html> <http://www.ecb.eu/home/html/index.en.html>,

EU Parliament http://www.europarl.europa.eu/news/public/default_en.htm, &

BOP <http://www.whitehouse.gov/fsbr/international.html>.

Chapter 4: Exchange Rate Determination

Topics: Appreciation vs. Depreciation, Percentage Change in the Spot Rate Components: Inflation, Domestic vs. Foreign Interest Rates, Domestic vs. Foreign Income Levels, Governmental Controls & Expectations of Future Exchange Rates.

Questions: 20 & 21. Handouts will be provided.

Blades Case, page 115.

Session Three: November 2, 2006.

Chapter 5: Currency Derivatives

Topics: Forward Contract, Forward Rate, Bid/Ask Spread, Premium or Discount on the Forward Rate, Offsetting a Forward Contract, Using Forward Contracts for Swap Transactions, NDF's (non-deliverable forward contract), Currency Futures Contracts, Speculation with Currency Futures, Currency Option Market, Currency Call Options, Factors Affecting Currency Call Option Premiums, Call Options to Hedge Payables, Currency Put Options, Factors Affecting Currency Put Option Premiums, and Graphing Short / Long Positions for Calls / Puts.

Questions: 4, 10, 11, 12, 13, 19, 20, 21 & 22.

Blades Case, page 150.

Supplemental Reading: Appendix 5B: Currency Option Combinations

Topics: Long Currency Straddle, Short Currency Straddle, Speculating with Currency Straddles, Long Currency Strangle, Short Currency Strangle, Speculating with Currency Strangles, Currency Bull Spreads with Call Options, Currency Bull Spreads with Put Options, Speculating with Currency Bull Spreads, and Currency Bear Spreads.

Chapter 6: Governmental Influence on Exchange Rates

Topics: Exchange Rate Systems: Fixed, Freely Floating, Managed Float, & Pegged. Dollarization, EU, European Central Bank, Reasons for Governmental Intervention, Direct Intervention: Non-Sterilized vs. Sterilized Intervention, Indirect Intervention & the Louvre Accord.

Supplemental Reading: Appendix 6: Government Intervention During the Asian Crisis

Discussion Questions. NOTE: Questions will be divided among the groups.

Country Articles and Research Presentations: Thailand, South Korea, Indonesia & Malaysia.

<http://www.imf.org/external/np/exr/ib/2000/062300.htm>

<http://www.imf.org/external/np/exr/facts/asia.htm>

<http://www.imf.org/external/np/exr/facts/asia.pdf>

Session Four: November 9, 2006.

FOREX trading results are due.

<http://www.fxcm.com/> Trading results to be presented.

Chapter 7: International Arbitrage and Interest Rate Parity

Topics: Locational Arbitrage, Triangular Arbitrage, Covered Interest Arbitrage, Interest Rate Parity, Derivation of Interest Rate Parity, & the Calculation of the Forward Premium.

Questions: 2, 4, 6, 7 & 17.

Blades Case, page 234.

Chapter 8: Relationships Among Inflation, Interest Rates, and Exchange Rates

Topics: Purchase Power Parity, Derivation of Purchase Power Parity, International Fisher Effect, Derivation of the International Fisher Effect, Comparisons of the IRP, PPP, and IFE Theories.

Questions: 24 & 25.

Blades Case, page 262.

Session Five: November 16, 2006.

Chapter 10: Measuring Exposure to Exchange Rate Fluctuations

Topics: Transaction Exposure, Impact of Currency Exposure, Transaction Exposure Based on Value-At Risk, Economic Exposure to Local Currency Appreciation/Depreciation, Sensitivity of Earnings

&

Cash Flows to Exchange Rates & Translation Exposure.

Question: 22: Handout will be provided.

Blades Case, page 324.

Chapter 11: Managing Transaction Exposure

Topics: Futures Hedge, Forward Hedge, Money Market Hedge, Currency Option Hedge,
Long-Term Forward Contracts, Currency Swaps, Parallel Loans, and Cross-Hedging.

Questions: 9, 10, 11 & 12.

Blades Case, page 359.

Session Six: November 18, 2006. Saturday Session. Noon start.

Chapter 12: Managing Economic Exposure and Translation Exposure

Topics: Strategies to Hedge Economic Exposure & the Use of Forward Contracts to Hedge Translation
Exposure.

Blades Case, page 386.

Chapter 13: Direct Foreign Investment

Topics: Motives for FDI (1-10), Benefits of International Diversification, and Barriers to FDI.

Exam Review: Please email any questions to jwoo@averett.edu.

World Equity Market Presentations.

U.S. Corporate International Operations & Currency Hedging presentations are due. (10K Reports)

Session Seven: November 30, 2006.

Class is cancelled.

Final Exam is due. Please place the document in a sealed envelope.

Deliver the exam to my mailbox in Room # 418.

World Equity Market Presentation:

Please choose an equity market from the link below. On Saturday, November 18th, teams will present their research findings of the equity market of choice. The presentation will consist of a history of the market, general purposes and structure of the exchange, and recent events in the market. Corporate governance, automation efforts, joint ventures/merger negotiations, legislative/regulatory/SRO issues are just a few possible topics up for discovery in constructing the presentation. Presentations should last 10 to 15 minutes. A packet of documentation (website pages and article findings) should be presented to the instructor on the date of presentation. A brief two-page summary of your opinions and outlook for the exchange should be included in the packet of documentation.

http://money.cnn.com/data/world_markets/

Corporate International Project:

Write a two- to three-page paper on a domestic corporation with foreign operations. Discuss their hedging techniques, international capital expenditures, and currency exposure relative to their transaction and economic risk. This information will be found in the corporation's 10K report.