

BA 4817/5817 – International Finance

MW 08:45 – 10:00 @ <https://metu.webex.com/metu/j.php?MTID=m00e530aaaae1b69c7175dd11031959c5>

Meeting number: 121 644 4994

Password: 4817

Instructor:	Dr. Seza Danişoğlu
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Office Hours:	Monday and Wednesday: 13:15 – 14:30 @ <a href="https://metu.webex.com/metu/j.php?MTID=mf2eb42d64661641a556823064b730daa">https://metu.webex.com/metu/j.php?MTID=mf2eb42d64661641a556823064b730daa</a>  Meeting number: 121 941 1039 Password: 4825  or, strictly by appointment
Course Web Page:	<a href="https://odtuclass.metu.edu.tr/course/view.php?id=5021">https://odtuclass.metu.edu.tr/course/view.php?id=5021</a>
Course Description:	<p>The internationalization of financial markets is the talk of the day! Students of finance cannot be fully-equipped to be successful in the business world without an understanding of how exchange rates are determined, what problems are encountered by firms operating in international markets and what solutions have been developed to deal with these problems. The purpose of this course is to increase your understanding of these issues.</p> <p>International finance differs from the purely domestic version of finance in at least two aspects:</p> <p>There are multiple currencies whose exchange rates are continuously floating and this increases the complexity and uncertainty of international investment and financing decisions. As a result, risk management becomes even more important.</p> <p>Multinational corporations operate in many different countries. Different regulations, tax and accounting rules and political regimes have significant effects on financial results and stockholder returns.</p> <p>This course emphasizes broad concepts and practices and provides a clear conceptual framework for analyzing key financial decisions in multinational firms. The textbook used treats international financial management as a natural and logical extension of the principles learned in the foundations course in financial management. Thus, it builds on and extends the valuation framework provided by domestic corporate finance to account for dimensions unique to international finance.</p>
Course Student Learning Objectives: (CSLO)	<p><i>Upon successful completion of this course, students should be able to:</i></p> <p><b>Course Specific Skills:</b></p> <ol style="list-style-type: none"><li>1. Understand the economic reasons behind the birth of multinational corporations</li><li>2. Understand how the value of world currencies are determined with respect to each other</li><li>3. Understand the evolution of the international monetary system</li><li>4. Understand the international monetary system mechanics, international economic linkages and the resulting parity conditions in international markets</li><li>5. Understand the structure of the currency derivatives markets and the motivation behind creating such contracts</li></ol>

6. Develop skills in using currency derivatives for managing currency risk
7. Understand the accounting and economic implications of foreign operations
8. Understand the difference between domestic and international portfolios and develop skills in managing international portfolios
9. Understand the difference between domestic and international capital budgeting and develop skills in evaluating international projects

**Discipline Specific Skills:**

10. Understand the difference between domestic and international financial management
11. Understand the implications of managing international operations
12. Understand how firms approach the practice of currency risk management

**Personal and Key Skills:**

13. Develop problem solving skills
14. Develop writing and discussion skills
15. Learn to apply the abstract concepts learned in the classroom to everyday financial decisions made by corporations

**Course Prerequisites:**

Students who have completed any one of the following courses with the stated minimum semester grade are allowed to register for this course:

BA 2802 (DD) or BA 5802 (CC) or IAM 521 (CC)

**Learning and Teaching Methods:**

This course is going to make use of formal lectures, in-class discussions and problem solving, written case study reports, and in-class case study discussions.

**Required Reading:**

Shapiro, A. C. and P. Hanouna, Multinational Financial Management, Cengage, USA, 11<sup>th</sup> Edition, 2019, ISBN: 978-1-119-55990-0)

**Supplementary Reading:**

You will need a lot of practice to feel comfortable with solving problems on exchange rate determination, parity conditions, arbitrage and exchange rate derivatives. The METU Library carries a variety of books written on international/multinational finance. It is a very good idea to check out some of these books and exercise your brain muscle by solving the end-of-chapter problems that are provided in these books.

**Assessment and Grading:**

Form of Assessment	% Contribution	Size of the assessment	CSLOs covered by this assessment	Feedback Method
Written Examinations (Six Examinations)	72	60-minute essay-type examination	1 through 15	Written and oral (in class)
Three Case Studies	9	Self-study hours (4+ hours)	1 through 15	Written and oral (in class)
Case Discussion Participation	9	Participation in case study discussions	1 through 15	Written and oral (in class)
Attendance and Quizzes	10	Class participation during regular lectures	1 through 15	Written and oral (in class)

No "extra" work above the aforementioned will be accepted or credited.

**Makeup Examinations:** There will be no make-ups for exams or assignments. If you have a time conflict, please contact me ahead of time.

**Important Note About Re-sit (Bütünleme) Exams:** Please note that re-sit exams are no longer given at METU.

**Incompletes:** A grade of incomplete will not be granted except for the most extreme circumstances and only after stringent verification and approval by the Department. A grade of incomplete will be granted only as a result of circumstances beyond the student's control. A grade of "I" is not given in lieu of an "FF".

#### Course Policies:

**Course Requirements:** The students will be assigned readings from the textbook and are expected to come to class prepared and ready to take part in class discussions.

Attendance is mandatory in this class. Past experience repeatedly demonstrated that students who regularly attend class and read the chapter assignments perform significantly better than students who have an intermittent attendance and/or who do not keep current in reading the chapters.

**Cases:** Three cases will be assigned during the term. All cases will be discussed in detail during a regular class session. Students are expected to respond to specific questions and to critique other student comments. Therefore, each student is expected to come to class ready to discuss the case. Please note that up to 9 percent of your overall grade will depend on your participation in the case discussions.

In addition, a written report on all of three cases will be submitted. You need to prepare these reports in groups of two people. You do not have to form a group with the same person for each case study. The cover page of the case reports should state the names of the students clearly. The reports should be concise yet address all of the major issues raised in the case. They should be similar in style and content to an executive summary and should be no more than three typed pages of narrative plus exhibits. The reports for the case studies will be submitted via the plagiarism detection service Turn-it-in's link available at the course page and instructions will be provided with each case study.

**Reading Assignments:** The following pages give the schedule for the reading assignments. The lectures will stress the most important and/or most difficult material. Appendices are required only if they are assigned.

**Presentation Slides:** A copy of the presentation slides is available at the course web page. These slides can be used as chapter summaries and utilized while taking down notes during class.

**STUDENT DISABILITIES:** Any student, who, because of a disabling condition, may require special arrangements in order to meet course requirements, should contact the instructor as soon as possible. Students should present the appropriate documentation from the university's Disability Support Office (Engelsiz ODTÜ Birimi, ODTÜ Kütüphanesi, Solmaz İzdemir Salonu, Tel: 210.7196; [engelsiz@metu.edu.tr](mailto:engelsiz@metu.edu.tr)) verifying their disability, and outlining the special arrangements required. Please note that no accommodations will be provided to the disabled students prior to the completion of this approved University process.

**ACADEMIC DISHONESTY:** The Department of Business Administration has no tolerance for acts of academic dishonesty. Such acts damage the reputation of METU, the department and the BS/MBA degree and demean the honest efforts of the majority of the students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

**CHEATING:** All university, faculty/institute, and department principles on academic honesty will be strictly enforced. The usual consequence for academic dishonesty is failure of the course and referral of the case to the Dean of the Faculty or the Graduate School of Social Sciences for additional disciplinary action. Examinations are individual and are to be completed without outside assistance of any sort. Persons observed cheating during examinations will receive a failing grade in the course. Homework assignments are individual, unless otherwise specified by the instructor, and are to be completed without outside

assistance of any sort, as well. Persons observed cheating in their homework assignments will receive a score of zero for the portion of the semester grade that is allocated to such assignments.

**PLAGIARISM:** The instructor assumes that students will do their own work. By placing their names on assignments (individual or team), students are affirming that the contents are their original work. Any previous work available from files or past students, as well as materials available on the internet may be used only as a suggestive model. Violation of this provision will be considered as unethical behavior, subject to disciplinary action. If you have any doubt about the use of a specific material, see the instructor ahead of time. Any material used from outside sources should be referenced appropriately. Persons observed to plagiarize while preparing assignments will be referred to the Graduate School of Social Sciences for additional disciplinary action and also they will receive a score of zero for the portion of the semester grade that is allocated to such assignments.

### METU HONOR CODE

Every member of METU community adopts the following honor code as one of the core principles of academic life and strives to develop an academic environment where continuous adherence to this code is promoted.

"The members of the METU community are reliable, responsible and honorable people who embrace only the success and recognition they deserve, and act with integrity in their use, evaluation and presentation of facts, data and documents."

**CIVILITY IN THE CLASSROOM:** Students are expected to assist in maintaining a classroom environment which is conducive to learning. In order to assure that all students have an opportunity to gain from time spent in class, unless otherwise approved by the instructor, students are prohibited from using laptop computers and cellular phones, making offensive remarks, reading newspapers, sleeping, or engaging in any other form of distraction. Inappropriate behavior in classroom shall result, minimally, in a request to leave class.

Past observations showed that the METU classroom experience is improved when the following are true:

**Students arrive on time.** Timely arrival ensures that classes are able to start and finish at the scheduled times. Timely arrival shows respect for both fellow students and faculty and it helps to create a better learning environment by reducing avoidable distractions.

**Students are fully prepared for each class.** Much of the learning in this course takes place during classroom discussions. When students are not prepared, they cannot contribute to the learning process. This affects not only the individual but also the classmates who count on them.

**Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged; however, intolerance for the views of others is unacceptable.

**Laptops, phones and wireless devices are turned off.**

**STUDENT EXCUSES:** Unless you inform me in advance, I will not excuse you from any of the grade requirements. At the same time, this does not mean that I will allow you to miss a test or an assignment with any excuse that you present to me. Please note that the excuse is acceptable for only the most extreme circumstances and only after stringent verification and approval by the Department.

**KNOW YOUR RIGHTS AND RESPONSIBILITIES!** <http://oidb.metu.edu.tr/en/academic-rules-and-regulations>

**NOTE THE IMPORTANT DATES ON THE ACADEMIC CALENDAR!** <http://oidb.metu.edu.tr/en/academic-calendar>

The instructor assumes that students who attend the next class have understood and accepted to agree with all the requirements and rules of this course.

**Notes:**

- Usage of cell phones is strictly prohibited during class. Please be courteous to your classmates and me and make sure that your phones are on silent mode before the class begins.
- Please arrive on time and do not enter the classroom if I already have closed the classroom doors. If you have to leave early, please inform me in advance. If, due to uncontrollable circumstances, you end up being late for class, please wait outside until the first in-class break during which I will open the classroom door and let you in.
- You are encouraged to drop by my office during office hours for questions, concerns, or, suggestions. Outside the office hours, please make an appointment with me in advance, before or after the class, via phone or e-mail. For quick questions that you may have, note that e-mailing is a very effective means of communicating with me.

Good luck to all of you and let's have a very enjoyable semester together!! SD

Don't be Trashy. **Recycle.**

Do not throw items away in the trash that should go into the recycling bin. Show a little class.

REDUCE, REUSE, RECYCLE!



The following table gives the tentative schedule for the semester. The lectures will stress the most important and/or most difficult material. Appendices are required only if they are assigned. The students are required to read the chapters and appendices before they are covered in class.

Tentative Course Schedule				
Month	Day	Topic	Reading (Based on 9/E)	CSLO
<b>Part I: International Financial Management Environment</b>				
March	15	Introduction: Multinational Corporations and Financial Management Appendix: The Origins and Consequences of International Trade	Chapter 1	1
	17	The Determination of Exchange Rates	Chapter 2	2
	22	The Determination of Exchange Rates (Cont'd) The International Monetary System	Chapter 2 Chapter 3	3, 4
	24	The International Monetary System (Cont'd)	Chapter 3	3, 4
	29	Parity Conditions in International Finance and Currency Forecasting	Chapter 4	3, 4
	31	Parity Conditions in International Finance and Currency Forecasting (Cont'd)	Chapter 4	3, 4
April	5	Parity Conditions in International Finance and Currency Forecasting (Cont'd)	Chapter 4	3, 4
	7	The Balance of Payments International and Economic Linkages	Chapter 5	3, 4
	9	<b>Midterm 1 @ 20:00</b> <b>Chps 1, 2, 3</b>		1, 2, 3, 4
	12	The Balance of Payments International and Economic Linkages (Cont'd)	Chapter 5	3, 4
	14	<b>Case Study 1</b>		3, 4
<b>Part II: The Foreign Exchange and Derivatives Markets</b>				
	19	The Foreign Exchange Market	Chapter 6	5, 6
	21	Currency Futures and Options Markets	Chapter 7	5, 6
	22	<b>Midterm 2 @ 20:00</b> <b>Chps 4, 5</b>		3, 4
	26	Currency Futures and Options Markets (Cont'd)	Chapter 7	5, 6
	28	Currency Futures and Options Markets (Cont'd)	Chapter 7	5, 6
May	3	Currency, Interest Rate, and Credit Derivatives and Swaps	Chapter 8	5, 6
	5	Currency, Interest Rate, and Credit Derivatives and Swaps (Cont'd)	Chapter 8	5, 6
	7	<b>Midterm 3 @ 20:00</b> <b>Chps 6, 7</b>		5, 6
	10	<b>Spring Break</b>		
	12	<b>Spring Break</b>		
	17	Currency, Interest Rate, and Credit Derivatives and Swaps (Cont'd)	Chapter 8	5, 6
	19	<b>Commemoration of Atatürk and Youth and Sports Day</b>		
<b>Part III: Foreign Exchange Risk Management</b>				
	24	Measuring and Managing Translation and Transaction Exposure	Chapter 9	7
	26	Measuring and Managing Translation and Transaction Exposure (Cont'd) Measuring and Managing Economic Exposure	Chapter 9 Chapter 10	7
	28	<b>Midterm 4 @ 20:00</b> <b>Chps 8, 9</b>		5, 6, 7
	31	Measuring and Managing Economic Exposure (Cont'd)	Chapter 10	7
June	2	<b>Case Study 2</b>		5, 6
<b>Part IV: The International Capital Markets and Portfolio Management</b>				
	7	International Portfolio Management	Chapter 13	8
	9	International Portfolio Management (Cont'd)	Chapter 13	8
	11	<b>Midterm 5 @ 20:00</b> <b>Chps 10, 13</b>		7, 8
<b>Part V: International Capital Budgeting</b>				
	14	<b>Required Reading: Country Risk Analysis (no class discussion)</b> Capital Budgeting for the Multinational Corporation	Chapter 11 Chapter 14	9
	16	Capital Budgeting for the Multinational Corporation (Cont'd)	Chapter 14	9
	21	Financing and Controlling Multinational Corporations	Chapter 15	9
	23	<b>Case Study 3</b>		7
	24	<b>Midterm 6 @ 20:00</b> <b>Chps 11, 14, 15</b>		9
July	9	<b>Final Examination @ 20:00</b> <b>Comprehensive</b>		