Graduate School of Management  
UC-Davis  

MGT/P 266: International Finance  
Syllabus (Revised, Jan 2, 2008)  
Winter Quarter, 2008

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Prerequisite

Required core course of Financial Theory and Policy

Course Overview

“The World is Flat.” – Thomas L. Friedman.

International Finance is one of the most important areas of interest in business in the twenty-first century. With the liberalization of international financial and human capital markets over the last half-century, firms are becoming increasingly global as they engage in business. The purpose of this course is to introduce you to the international markets in which firms operate, and to give you an understanding of the important international economic factors and relationships that can affect a multinational firm. The material covered in this course will be used to assess the risk of the economic environment in which multinational firms operate, and examine the decisions facing financial managers in a global environment and the tools used in making those decisions. The topics include foreign currency exchange rates, arbitrage and parity conditions, currency risk management, financing in the global market, and cross-border valuation and international investment.

The first half of the course covers the determination of foreign exchange rates, and the basics of trading in financial markets and governmental exchange rate policy. The second half, which is the focus of the course, deals with the impact of foreign currency exchanges and global capital markets on firms’ investment, financing, and risk management policies. Therefore, this course, while is useful for currency traders and arbitrageurs, is mainly for financial managers in multinational firms.
Course Materials

My lecture slides are closely following the teaching notes, which are posted on the SmartSite.


All of these books have been ordered and will be on reserve in the UC-Davis library.

A number of Harvard teaching notes and cases will supplement the book. Other reading materials, including articles and cases, are contained in the reading pack and downloadable from study.net.

Teaching materials such as additional notes, homework solutions, and casual readings will be posted on the SmartSite in a timely fashion.

Students are encouraged to read the *Financial Times*, the *Economist* magazine, and the *Wall Street Journal* regularly.

Assessment

Your course grade is based on group assignments (one major project and three minor ones) (30%), a midterm take-home test (25%), and a comprehensive final exam (45%). Class participation and attendance may change your grade at the margin. Homework sets will be assigned, but they are not collected. The solutions are usually included in the textbook. Otherwise, they will be posted for self-check.

The final exam will be closed-book, with a page of cheat-sheet allowed. Calculators may be needed. It will be three hours long.

A practice final exam paper will be provided.
Group Assignments

Each group will consist of four to five students. The formation of the group takes a two-stage approach. You have the option to choose your team members after the first meeting of the class, within two days. However, I will make the final allocation of the groups.

One project is a term project. The detailed requirement will be disclosed in a timely fashion. Its weight in your course grade is 15%. There are three smaller projects. The write-up is typically one page, single-spaced, either a summary of the case or answers to a couple of short questions which will be discussed in class.

Consultation

Weekly Office Hours: 3:30 to 5:00pm, every Wednesday.
For Bay Area & Sacramento WP students: after class. Special office hours may be offered if needed.
Most questions can be answered through e-mail. I will check my e-mails regularly.
In addition, you can make an individual appointment.

Course Schedule and Readings

Week 1: Course Overview. Introduction to International Financial Markets

Readings: Lecture Note 1
Textbook: Chapter 1 (all of the chapters are referred to the book by O’Brien)

Week 2: Current Account Deficits and the Balance-of-Payments Accounting.
Readings: Lecture Note 1 (continued)
5. *“America's Growing Trade Deficit Is Selling the Nation Out From Under Us. Here's a Way to Fix the Problem—And We Need to Do It Now.” By Warren E. Buffett (Fortune 11/10/2003).

Week 3: Purchasing Power Parity Conditions & Exchange Rate Regimes

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Note: The articles with asterisk are highly recommended. Some of them will be incorporated into our lectures and case discussions.
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Readings: Lecture Note 2
Textbook: Chapter 2
9. *Harvard Note: Exchange Rate Regimes.

Week 4: Forward Exchange, Interest Rate Parity Conditions, & International Fisher Theory.

Readings: Lecture Note 2 (continued)
Textbook: Chapters 3 & 4.

Week 5: Global Bond Markets & Swap

Readings: Lecture Note 3
Textbook: Chapters 6 & 7

Week 6: Global Equity Markets and Arbitrage.
Readings: Lecture Note 3 (continued)
18. *Harvard Case Study: Royal Dutch/Shell

Week 7: Foreign Currency Risk Management

Readings: Lecture Note 4
Textbook: Chapters 5 & 8
19. *Harvard Teaching Note on Why manage risk?
22. *“Baxter’s Hedge in 2002 Turned into Costly Bet,” Wall Street Journal, Jan.6, 2005

Week 8: Cross Border Valuation

Readings: Lecture Note 5
25. *Harvard Case Study: MSDI.

Week 9: Global Capital Asset Pricing Model and the Cost of Capital. Foreign Direct Investments

Readings: Lecture Note 5 (continued)
Textbook: Chapters 9 & 10.

Week 10: Final Review.

My Teaching Style and Philosophy

I treat each finance subject mainly as a discipline of science: analytic, systematic, and objective. The financial theories I present to you are well grounded in economic, rational choice framework. The empirical evidences are drawn from researches based on large databases. The focus is firmly on the applications of well founded financial theories. The subject is taught in combinations of lectures, case studies, group projects, and class discussions.

I will adopt more cases in this subject than the Investment Analysis course I taught in the Fall Quarter 2007. The cases are chosen as illustrations of the theories and techniques we have learned in the lectures.

Laptop and Mobile Phone Policy

Students are encouraged to bring laptops in lectures because we have quite a few exercises using Excel. Laptops should be used in class only for class activities such as taking notes and doing in-class exercise. They should not be used to check email, surf the web, or to do other non-class activities during class time. Mobile phones should be switched off.
Preliminary Readings (to be done prior to the first class)

Please read the course syllabus, Chapter 1 of the textbook, and the article: “Dollar Lifts Exporters, Blunting Housing Bust.” The Wall Street Journal, Oct 1, 2007, to get an overall view about things we are going to learn in this subject. Also, you can read Teaching note 1 as well as the slides of the first few lectures posted online as well.

UC Davis Code of Academic Conduct

Each student is expected to adhere to the UC Davis Code of Academic Conduct. Any suspected violations will result in an investigation and be dealt with seriously.

About Me

After finishing a B.S. degree in mathematics from Nanjing University in China, I came to the United States to pursue doctoral studies. My Ph.D. degree in finance was granted by the Olin School of Business, Washington University in St. Louis. Since 1997, I have been employed at the Melbourne Business School (MBS) in Australia, teaching the core Finance subject, Investments, Corporate Finance, and Global Financial Management electives. Recently, I won the Teaching Excellence Award, voted by the Class of 2007 full-time MBA students at the MBS. I also taught at the Australian Graduate School of Management and Washington University in St. Louis as a visiting faculty member. In the fall quarter of 2007, I taught the Investment Analysis for the Day-time and Bay Area WP students here. My main research interests are in the broad area of capital markets and corporate finance/governance. I won the best paper award for research papers published in the Australian Journal of Management in both years 2001 & 2004. My current research topics include the relation between corporate disclosure policy and share return volatility, and efficiency and governance of for-profit and non-profit organizations. I have also done a number of consulting projects with several companies. In my spare time, I enjoy travel, classical music, and reading.