Instructor: Hao-Chen Liu  
Class Time: 10:50 a.m. to 12:05 p.m., Tuesdays and Thursdays  
Office/Phone/E-mail: J.C.Long 307, 953-1988, liuh@cofc.edu  
Office Hours: 8:15 to 9:15 a.m. and 2:30 to 4:00 p.m. on Tuesdays and Thursdays or by appointment

Course Description
This course introduces the operation of international financial markets and risk management in the global environment. Designed for graduate-level MBA students, this course combines lectures, discussion, case studies, written reports and trading simulation to equip students with the skills to make financial decisions in the global market. This course will be built on the following 5 modules:

1. Introduction: Overview, history of international monetary systems, and International payment system
2. The fundamentals: This module will introduce the basic foreign exchange markets including the spot and forward markets. We will also discuss the foreign exchange determination by learning international parity relationships and tools for forecasting foreign exchange rates
3. The risk management tools: This module introduces the financial derivatives used in risk management including forwards, foreign exchange swaps, futures, options, interest rate swaps, currency swaps, and forward rate agreement.
4. Foreign exchange exposure and management: This module introduces the types of risk exposure and hedging strategies.
5. International financial markets and institutions: This module introduces the international banking business, interesting rate market, equity market, and others.

The first half of the course will focus on building basic concepts through lecturing and the second-half of the course will focus on application through case studies and discussion.

Learning Goals
The goal of this course is for you to learn concepts and tools so that you may analyze financial issues and make financial decisions in a global environment. You will possess the problem solving skills, be aware of important issues in international market, and know the following when you finish this course:

- The development of international monetary systems
- The balance of payments
- The function and structure of foreign exchange markets
• Foreign exchange market trading dynamics, rules, and pricing
• International parity relationships and foreign exchange rate determination
• Equilibrium condition in the foreign exchange market
• Constructing arbitrage portfolio in the foreign exchange market
• Tools to forecast foreign exchange rates
• Instruments to hedge international financial risks
• Developing strategies to reduce foreign exchange risk
• International banking, money, bond, and equity markets

Textbook, Reading Assignments, Cases, Suggested Reading:
• Reading Assignments and Cases: The cases and reading assignments published by Harvard Business School (HBS) are listed under the Tentative Class Schedule section.
• Other Reading: Wall Street Journal

Prerequisite:
MBAD-503 Financial management

Grade Determination
Final grade will be determined as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Exams 1, 2, 3</td>
<td>30%*</td>
</tr>
<tr>
<td>Individual case report</td>
<td>20%</td>
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<tr>
<td>Group case report</td>
<td>20%</td>
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<tr>
<td>Group company report</td>
<td>20%</td>
</tr>
<tr>
<td>Homework</td>
<td>5%</td>
</tr>
<tr>
<td>Trading game</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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</table>

*There will be an optional comprehensive final exam. The score of the final exam can be used to replace the score of the lowest scored Exams 1, 2, or 3.

The Overall Performance Score computes with this letter grade distribution:

A: $90.0 \leq \text{average}$
B+: $87.0 \leq \text{average} < 90.0$
B: $80.0 \leq \text{average} < 87.0$
C+: $77.0 \leq \text{average} < 80.0$
C: $70.0 \leq \text{average} < 77.0$
F: $\text{average} < 70.0$
**Individual and Group Assignments**

Each student should be in a group of 4~5 students. Through the semester, group study and discussion are encouraged. Send me the names of your group members in 1 week.

(1) Group company report (**Due on the day of your group presentation**):
Each group will choose a U.S. public company to prepare an analysis report. This will be an ongoing project through the semester. The final report will summarize the company’s business activities particularly internationally related ones, provide a complete analysis to identify and quantify its international risk exposure, analyze the effect of exchange rate movement on the business and company value, and provide a recommendation to address these issues. Only one group report is required to be turned in. Each report should start with a one-page executive summary. There is no limit on the size of the report. However, keep in mind that a long report is not necessarily a good report. You should include only the relevant analysis to support your recommendation. Redundant information can create adverse effects on the quality of your report. In addition, each group needs to present the report in class in a professional way during the assigned class period. Your participation and contribution to the group project will be part of the company report grade.

(2) Group case report (**Due on April 26, 2014**):
Each group will prepare a group case report on Case #8, “Ibersnacks, S.A.”. Each group should analyze the case and prepare a professional analysis report. Only one group report is required to be turned in. The group report is expected to cover all aspects of the case. Do not limit yourself with the strategies discussed in the case; you may suggest other alternatives. Each report should start with a one-page executive summary. There is no limit on the size of the report. However, keep in mind that a long report is not necessarily a good report. You should include only the relevant analysis to support your recommendation. Redundant information can create adverse effects on the quality of your report.

(3) Individual case report (**Due on April 11, 2014**):
Each student will prepare an individual report on Case #2 “Pixonix Inc”. The maximum length of the report will be three-pages (single-spaced, 12 pt. font size, Times New Roman, no cover page) including the tables and figures. **No group discussion is allowed for individual report.**

**Homework**
Homework problems are assigned from the following selected chapters. Each assignment is due next class after the chapter is covered. All of your works need to be typed and only hard copy is accepted. Late homework is not accepted.
Ch.2: Question #3
Ch.3: Problem #1
Ch.5: Problems #1, 4, 6, 8, 10, 12
Ch.6: Problems #1, 2, 3, 7, 9, 12
Ch.7: Problems #1, 6, 8, 9, 11, 12
Ch.8: Problem #1, 2, 4, 6
Ch.9: Problem #1, 2
Ch.11: Problem #1, 2, 4
Ch.12: Problem #1, 2
Ch.14: Problem #2

Trading Game
This game replicates a foreign exchange market. The purpose of this game is to make you familiar with the foreign exchange trading. Your grade on the game will be based on your participation. However, bonus points will be given to students with the highest ending profits in each of the official rounds. More detailed information will be provided.

Trading game dates:
(1) Practice round: February 18 to February 28
(2) Official round 1: March 11 to March 21
(3) Official round 2: March 25 to April 4

Exam Policy
- Exams are administered in-class and therefore time conflicts should not occur. No make-up exam will be given. If extenuating circumstances cause you to miss an exam then you, or your designee, must contact me, or the Finance administrative assistant (953-8100), the day following the exam. **If no contact is made then your exam grade automatically is "F" (zero).** If you make contact as specified above and I determine the reason for missing the exam is deemed valid, then the weight of the missed exam will be added to that of the final exam.
- Exams will be closed book and closed note. A formula sheet will be provided at each exam.

Other Issues
(1) Grade appeal: To appeal your grade, write the justification for your appeal and submit your written argument and assignment/exam within one week of the general return of the assignment/exam. Appeals filed tardy, such as after the end of the term, will not be considered. Your grade on assignments/exams prior to the final should be discussed
before you take the final. After the final exam, the only issue on the table for discussion is the final exam itself.

(2) Attendance policy: Class attendance is mandatory.

(3) Email policy: I will respond only to emails sent through student email accounts (i.e. cofc accounts). Email received after 3 p.m. will not be replied until next good day.

(4) It is your responsibility to check with your fellow students or me on any announcement made in class if you miss the class.

(5) I strongly recommend you bring a calculator to class. No specific type of calculator is required but a financial calculator is preferred.

(6) If there is a student in this class who has a documented disability and has been approved to receive accommodations through the Center for Disability Services/SNAP (Students Needing Access Parity), please notify me as soon as possible.

### Tentative Class Schedule

<table>
<thead>
<tr>
<th>Topics</th>
<th>Reading</th>
<th>Date</th>
</tr>
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<tbody>
<tr>
<td>I. INTRODUCTION</td>
<td></td>
<td>WK 1~3</td>
</tr>
<tr>
<td>• Overview</td>
<td>ER: Ch. 1</td>
<td></td>
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<tr>
<td>• History of international monetary system</td>
<td>ER: Ch. 2</td>
<td></td>
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<tr>
<td>• International payment system</td>
<td>ER: Ch. 3</td>
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<tr>
<td>II. THE FUNDAMENTALS</td>
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<td>WK 4~6</td>
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<tr>
<td>• Foreign exchange market (spot and forward)</td>
<td>ER: Ch. 5</td>
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<tr>
<td>○ Supplement reading #1: “Exchange Rate Terminology and Analytics”, HBS, 9-701-121</td>
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<tr>
<td><strong>EXAM 1 (February 11, 2014)</strong></td>
<td></td>
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<tr>
<td>• Foreign exchange rate determination</td>
<td>ER: Ch. 6</td>
<td>WK 7~8</td>
</tr>
<tr>
<td>○ Supplement reading #2: “Note on Fundamental Parity Conditions”, HBS 9-288-016</td>
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<tr>
<td>○ Case #1: “MSDJ-Alcala de Henares, Spain”, HBS 9-289-029</td>
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<tr>
<td>III. THE INSTRUMENTS</td>
<td></td>
<td>WK 9~10</td>
</tr>
<tr>
<td>• Derivatives: futures and options</td>
<td>ER: Ch. 7</td>
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<tr>
<td><strong>EXAM 2 (March 25, 2014)</strong></td>
<td></td>
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<tr>
<td>IV. RISK MANAGEMENT</td>
<td></td>
<td>WK 11~12</td>
</tr>
</tbody>
</table>


• Managing foreign exchange risk
  ○ Trading Game: www.Investopedia.com
    (End on 4/10/2013)
  ○ Case study #2: “Diva Shoes, inc.”, UV0266
  ○ Case study #3: “Lufthansa”, Thunderbird Case Series, TB0183
  ○ **(Individual case report)** Case study #4:
    “Pixonix Inc.-Addressing Currency Exposure”,
    Richard Ivey School of Business, Case 908N13 (**Due: April 11, 2014**)
  ○ Case study #5: “Tiffany & Co. – 1993”,
    HBS Case 9-295-036
  ○ Case study #6: “Hedging Currency Risks at AIFS”,
    HBS Case 9-205-026
  ○ Case study #7: “Foreign Exchange Hedging Strategies at General Motors: competitive Exposures”,
    HBS Case 9-205-096
  ○ **(Group case report)** Case Study #8: “Ibersnacks, S.A.”
    IES017-PDF-ENG (**Due: April 26, 2014**)

V. INTERNATIONAL MARKETS

* International banking and money market
  ER: Ch. 11
* International bond market
  ER: Ch. 12
* International equity market
  ER: Ch. 13
* Interest Rate and Currency Swaps
  ER: Ch. 14
  ○ Supplement reading #3: “Note on Foreign Currency Swaps”, HBS Case 9-292-043
  ○ Supplement reading #4: “A Note on Depositary Receipts”
    HBS Case #9-803-026
  ○ Case study #9: “Walt Disney Co.’s Yen Financing”,
    HBS Case 9-287-058

**EXAM 3 (April 15, 2014)**

**OPTIONAL COMPREHENSIVE FINAL (April 26, 2014, 8 a.m. 11 a.m.)**
College of Charleston Honor Code and Academic Integrity

Lying, cheating, attempted cheating, and plagiarism are violations of our Honor Code that, when identified, are investigated. Each incident will be examined to determine the degree of deception involved.

Incidents where the instructor determines the student’s actions are related more to a misunderstanding will handled by the instructor. A written intervention designed to help prevent the student from repeating the error will be given to the student. The intervention, submitted by form and signed by both the instructor and the student, will be forwarded to the Dean of Graduate Students and placed in the student’s file.

Cases of suspected academic dishonesty will be reported directly by the instructor and/or others having knowledge of the incident to the Dean of Graduate Students. A student found responsible by the Honor Board for academic dishonesty will receive a XF in the course, indicating failure of the course due to academic dishonesty. This grade will appear on the student’s transcript for two years after which the student may petition for the X to be expunged. The student may also be placed on disciplinary probation, suspended (temporary removal) or expelled (permanent removal) from the College by the Honor Board.

Students should be aware that unauthorized collaboration--working together without permission-- is a form of cheating. Unless the instructor specifies that students can work together on an assignment, quiz and/or test, no collaboration during the completion of the assignment is permitted. Other forms of cheating include possessing or using an unauthorized study aid (which could include accessing information stored on a cell phone), copying from others’ exams, fabricating data, and giving unauthorized assistance.

Research conducted and/or papers written for other classes cannot be used in whole or in part for any assignment in this class without obtaining prior permission from the instructor.

Students can find the complete Honor Code and all related processes in the Student Handbook at http://www.cofc.edu/about/documents/handbook.pdf