

Academic Year 2004/2005
Semester 1

MScIF Programme

*** INTERNATIONAL FINANCE ***

MIF 1.212

5 crédits

Course Leader :
Dr. Michel Henry Bouchet
Scientific Director, MScIF
Finance Professor

Syllabus

1. Course Objectives

1.1 - General Objectives :

The course's key objective is to provide students with a solid understanding of the international financial system with a view to gauge the risks and opportunities of financial globalization. The course is designed for students interested in the close interplay between international financial markets, the global economy's market forces and official regulation. The target student clientele might want to work in the financial department of a company, to join an international financial institution, either private or public, or to hold responsibility positions in a company exposed to the global financial markets. Accordingly, these students need a deeper understanding of "high finance" issues.

The main focus of the course will be the financial implications of the rapid integration of national economies worldwide through trade, financial flows and technology spillovers upon the firm's cross-border strategy. The course will assess the impact of economic and financial liberalization as well as structural reforms upon the foreign exchange and financial markets of both advanced and emerging market economies. It will put the emphasis on relating theoretical and technical issues with current events in the international financial sphere.

1.2 - Specific Objectives :

Understanding the organization of the international financial system and the policy coordination role of the multilateral institutions;

Assessing the main sources of risks and opportunities arising from the growing integration of international financial markets from the corporate's standpoint;

Understanding the scope and limits of monetary policy tools given the globalization of capital markets;

Apprehending the evolving range of financial instruments in the international capital markets;

Understanding the nature of cross-border risk and its management.

2. Course Organization

Teaching Method

The 10 session course will be divided in two parts. Part I will comprise four introductory sessions in a three-week period. Part II will expand and deepen the introductory work throughout six further sessions. All in all, the course will last 30 hours, including quiz, tests, mid-term exam and final presentations.

The professor will rely on lectures, exercises, case studies. Each class will start with a press review where students will be expected to summarize and discuss the salient features of the week in international finance (not the 8 o'clock news!).

Powerpoint-assisted lectures will be accompanied by documents to shed light on the various topics of the course. Slides will be available on the web site of the Chair Global Finance. <http://www.globalfinance> and on WEBINTEC.

Mobile phones off during the course, please! Arriving on time for the course is a prerequisite. Absolutely no excuses will be accepted for late assignments, unless they are formally approved ex ante by the MScIF director.

3. Assessment

3.1 Course assessment :

Each course will be assessed using a single letter grade. This grade will take into account both continuous assessment and the final exam.

Class Participation-quality of interventions, comments & Oral presentations 30%

Final Project 40%

Mid-term Exam 30% (makeup exams will not be offered)

Student responsibilities

Students who enrol for the course will be expected to read the prescribed references and other recommended material, to make oral presentations on current international finance topics, to follow closely the financial press on a weekly basis, to work in group situations, and to be active participants in the debates and discussions in class. Looking over the Financial Times, WSJ, the Economist, Les Echos or La Tribune is highly prescribed. Macroeconomic background is recommended but not a strict prerequisite.

3.2 Grading system :

Grade	Appreciation	
A	Excellent	Pass
B	Very good	Pass
C	Good	Pass
D	Satisfactory	Pass
E	Sufficient	Pass
FX	Insufficient	Extra evaluation needed
F	Fail	Course needs to be taken again

4. Course Books

Required Text book (one of the following three):

- Ephraim Clark, « International Finance », 2nd Edition, Thomson, 2003
- Eiteman, Stonehill, Moffett : Multinational Business Finance, Pearson, 10th edition, 2004
- or Bouchet, Eiteman: Gestion et Finance Internationales, Pearson, Paris 2004

Recommended Readings:

Thomas Pugel, “International Economics”, 11th Edition, MacGraw Hill, 2001.

Bouchet, Clark & Gros Lambert: “Country Risk Assessment: A management tool for the Global Firm”, WILEY, 2003.

71th BIS Annual Report (Bank for International Settlements), Basles, 2004 Chap. VI, VIII, IX.
www.bis.org

BIS: International Banking and Financial Market Developments, 2004
<http://www.bis.org/publ/ar2004e.htm>

International Monetary Fund, Annual Report 2004 Part I: The Global Economy

World Bank, « Global Development Finance », Part 1, Volume I, 2004

World Bank, Annual Report 2004

James C. Baker, « International Finance – Management, Markets, and Institutions », Prentice Hall, 1998

Bouchet Michel H., “The Political Economy of International Debt”, QUORUM, Chap. 1 & 2.

IMF Surveys and IMF Finance & Development (monthly)

Web sites : World Bank, IMF, BIS, OECD, Moody’s, IIE, IIF...

5. Contacts

Course Leader :

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6. Course Plan

CLASS 1

Introduction: The trend toward financial globalization

- Origins and evolution of the global financial system
- Risk and opportunities of financial globalization

Readings

Eiteman: Chapter 2

IMF World Economic Outlook

BIS Annual Report, Chap. I

Bouchet-Eiteman: Chapter 1

- *Robert E. Lucas Jr.*: “The Industrial Revolution: Past and Future”, *FRB Minneapolis*, May 2004.
<http://minneapolisfed.org/pubs/region/04-05/essay.cfm>
- Nicholas Crafts:” Globalization and Economic Growth: An Historical Perspective”, *the World Economy*, Vol. 27, n°1, pp. 45-58, January 2004.
- Goldman Sachs, October 2003: [Dreaming With BRICs: The Path to 2050](http://www.gs.com/insight/research/reports/99.pdf)
<http://www.gs.com/insight/research/reports/99.pdf>

CLASS 2

The Balance of Payments

- Current and capital accounts
- The “net international investment position”
- Balance of payments and the absorption approach
- The monetary approach to the balance of payments: the “Polak model”
- Financing gaps and external indebtedness

Eiteman : Chapter 3

<http://www.bea.gov/bea/di1.htm>

http://www.bea.gov/bea/newsrelarchive/2004/intinv03_fax.pdf

Clark, Chapter 1

Pugel, Thomas, Chapters 1 & 2

CLASS 3
The Financial Adjustment process

- Financial imbalances: the search for an optimal combination of adjustment and financing
- The official and private financing sources of domestic adjustment
- Relation between adjustment mechanisms and policy instruments
- The role and limitation of exceptional financing
- The Maastrich Stability Pact

Preparation: Finance & Development, June 2004, pp. 8-28
IMF Annual Report 2004, Part I.
Clark, chapter 2

CLASS 4:
The Foreign-Exchange Market

- International parity relations
- Exchange rate management
- Pegged, crawling and flexible exchange rates
- Currency Board and Dollarization

Eiteman, Chapters 6 & 7
Clark, chapter 3
BIS Annual Report, Chap VI: Exchange rates and capital flows

CLASS 5:
The International monetary system

- Institutional Framework and Evolution
- The Euro zone
- The dollar zone
- The yen zone
- The CFAF zone
- The specific role of the SDR

Preparation: BIS "International Banking and Financial Developments"
Finance & Development, June 2004, pp. 29-33
Eiteman: Chapter 2 and/or Clark, Chapter 4
"The role of the Euro in Global Markets", Sirkka Hämalainen, Economic & Financial Review, Spring 2003.
"The US Current account deficit and the Euro Area", IIE, Speech by Edwin Truman, July 2004
<http://www.iie.com/publications/papers/truman0704.htm>

CLASS 6:
The Euromarkets: evolution and structure

- Origins and developments:
- Syndicated credits
- Eurobonds and international debt securities

Preparation: Eiteman, Chapters 4 & 13

Clark, Chapters 5 and 17

BIS Annual Report, Chap. VIII

BIS Quarterly Review, September 2004, pp. 67-77

BIS http://www.bis.org/publ/qtrpdf/r_qt0409.pdf

CLASS 7:
The International Capital markets: regulation & Supervision

- The role of the BIS
- The Basel I & II Agreements
- Capital ratios and credit assessment

IIF Documents on Cooke Ratio and Basles II

BIS web site: <http://www.bis.org/publ/ar2004e.htm>

<http://www.bis.org/publ/bcbs107.htm>

<http://www.bis.org/press/p040626.htm>

OECD report: <http://www.oecd.org/dataoecd/18/42/1837890.pdf>

CLASS 8
The international financial institutions

- The key roles of the IMF, the World Bank, the BIS and the IIF
- Lending instruments of the IMF
- Cofinancing between private banks and IFIs
- Review of key international finance statistics (IMF, OECD, BIS, IIF)

Preparation: BIS -“International Banking and Financial Developments”

IMF Annual Report: WEO: <http://www.imf.org/external/pubs/ft/weo/2004/01/index.htm>

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

<http://www.imf.org/external/np/exr/faq/faqs.htm>

CLASS 9 :
Global risk, Financial crises and Risk-mitigating tools

- The specific nature of cross-border risk
- Risk appraisal and management techniques: rating and rankings
- Origins and developments of the secondary markets in bank claims: Price and discount determination, trading techniques, volume, liquidity and volatility
- Risk mitigation tools: debt conversion transactions and collateralization
- Institutional guarantee schemes (ECAs, OPIC, MIGA...)

Preparation: Bouchet, Gros Lambert & Clark, Chapter 1
World Bank, Global Development Finance

CLASS 10:
CONCLUSION: Group Report Presentations

- Group work: Students' oral presentation of International Finance reports