



**UNIVERSIDAD PABLO DE OLAVIDE**  
**Centro de Estudios para Extranjeros**

**INTERNATIONAL FINANCE BUS 346**

## **INTRODUCTION**

The main purpose of this course is to introduce the students to the complex world of International Finance. International Finance is the branch of Economics that studies the dynamics of exchange rates, foreign investment, and how these affect international trade. It also includes the study of futures, options and currency swaps.

The first part of this course is dedicated to the description and the functions of today's monetary systems, at both the international and European level. Before continuing, we will make a quick review of the main international stock markets which will be useful for your final project. Finally, we will analyze the different theories that attempt to explain the formation of conversion rates.

In the second part, we will analyze the foreign currency markets, not only the traditional spot and forward ones, but also the derivatives markets. Specifically, option and future contracts on foreign currency are described as well as some over the counter (OTC) products.

## **COURSE CONTENT**

### **PART ONE: MONETARY SYSTEMS AND EXCHANGE RATE THEORIES**

#### **Unit 1: INTERNATIONAL MONETARY SYSTEM**

- 1.1. Introduction.
- 1.2. Determining Exchange Rates.
  - 1.2.1. Fixed Exchange Rates.
  - 1.2.2. Floating Exchange Rates.
  - 1.2.3. Mixed Exchange Rates.
  - 1.2.4. Multiple Exchange Rates.
- 1.3. The evolution of the International Monetary System.

- 1.4. European Monetary System.
  - 1.4.1. The ECU.
  - 1.4.2. Recent evolution of the monetary system.
  - 1.4.3. The Euro.

#### Unit 2: EXCHANGE RATE THEORIES

- 2.1. Introduction.
- 2.2. Theory of Purchasing Power Parity.
  - 2.2.1. The Big Mac Index.
  - 2.2.2. The Exchange Rates Indexes.
- 2.3. Theory of Interest Rates Parity (TPPI).
- 2.4. Closed Fisher Theory.
- 2.5. Expectative Theory.
- 2.6. International (Open) Fisher Theory.
- 2.7. Summary.

### **PART TWO: FOREIGN CURRENCY MARKETS: SPOT, FORWARD AND DERIVATIVES.**

#### Unit 3: SPOT AND FORWARD FOREIGN CURRENCY MARKETS.

- 3.1. Definitions and main characteristics.
- 3.2. The Foreign Currency Market in Spain.
- 3.3. Operating in the Foreign Currency Market
  - 3.3.1. Spot and Forward Market.
  - 3.3.2. Arbitrage operations.
  - 3.3.3. Interest arbitrage.

#### Unit 4: OVER THE COUNTER FOREIGN CURRENCY MARKETS (OTC).

- 4.1. Introduction.
- 4.2. Parallel and "back to back" loans.
- 4.3. Currency swaps contracts.
  - 4.3.1. Fixed against floating Swaps.
  - 4.3.2. Fixed against fixed Swaps.
  - 4.3.3. Floating against floating Swaps.
- 4.4. Valuation of currency swaps.
- 4.5. Negotiation of currency swaps.
- 4.6. Risks, advantages and shortcomings of currency swaps.

#### Unit 5: FOREIGN CURRENCY DERIVATIVES MARKETS.

- 5.1. Introduction.
- 5.2. Currency futures.
  - 5.2.1. Main characteristics.
  - 5.2.2. Valuation.
  - 5.2.3. Hedging operations.

- 5.2.4. Speculative operations.
- 5.2.5. Arbitrage operations.
- 5.3. Currency Options.
  - 5.3.1. Main characteristics.
  - 5.3.2. Valuation.
  - 5.3.3. Hedging operations.
  - 5.3.4. Speculative operations.
  - 5.3.5. Arbitrage operations.
  - 5.3.6. Synthetic options.

### **COMPULSORY REFERENCE**

EITEMAN D.; STONEHILL, A. AND MOFFETT, M. (2006), *"Multinational Business Finance"*, Addison-Wesley, 11th Edition.

### **OTHER TEXTBOOKS**

EUN / RESNICK. International Financial Management. Fourth edition, McGrawHill, 2007  
SOLNIK, B. (2003), *"International Investments"*, Addison-Wesley, 5<sup>th</sup> edition.

### **ASSESSMENT**

Your final grade will be calculated according to the following system:

- 15% mid-term exam
- 30% final exam
- 40% Case-study
- 15% Class participation

Every day, during the first 10-15 minutes of class I will invite you (and of course consider it in your 15% participation grade) to bring lecture-related articles from magazines, newspapers or any source that you wish, and share them with the rest of your classmates.