

ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Business Administration)

INTERNATIONAL FINANCE (578)

SEMESTER: AUTUMN, 2013

CHECKLIST

This packet comprises the following material:

1. Text book
2. Course outline
3. Assignment No. 1 & 2
4. Assignment forms (2 sets)

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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Course Coordinator

ALLAMA IQBAL OPEN UNIVERSITY ISLAMABAD
(Department of Business Administration)

WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Course: **International Finance (578)**
Level: **MBA**

Semester: **Autumn, 2013**
Total Marks: **100**

ASSIGNMENT No. 1

- Q. 1 a) Explain International Monetary System and its role in the world economy. (10)
b) Discuss the historical background of International Monetary System in detail. (10)
- Q. 2 a) Explain the term capital account and its role in the economy. (08)
b) Discuss the various categories of capital account in detail. (12)
- Q. 3 Discuss how a country can run an overall balance – of – payment deficit or Surplus? Write example with relation to analysis of Federal Government Budget 2013–14. (20)
- Q. 4 a) Explain the term forward market and its role in the foreign exchange market. (10)
b) Discuss the two tiers of foreign exchange market in detail. (10)
- Q. 5 a) Discuss the role of MNCs in the economic development of country. (10)
b) Explain the market participants and their role in detail. (10)

Guidelines for Assignment # 1

The student should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course

materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

Prepare your assignment as per the guidelines and it may be re-evaluated by the Quality Assurance Cell, Department of Business Administration at any time.

ASSIGNMENT No. 2

Total Marks: 100

This assignment is a research-oriented activity. You are required to obtain information from a business/commercial organization and prepare a report of about 1000 words on the topic allotted to you to be submitted to your teacher for evaluation.

You are required to select one of the following topics according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit): -

0. European monetary system and its effect on global economy
1. Purchasing power parity relationship
2. Option pricing and its effect on foreign exchange market
3. Measurement of transaction exposure
4. International money market
5. International mutual funds: A performance evaluation
6. Capital budgeting and its role in the evaluation of international project
7. International bank loans and its importance in international business
8. Multinational financial activities and its role in global economy
9. Letter of credit and its importance in international business

The report should follow the following format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the topic
6. Practical study of the organization with respect to the topic
7. Data collection methods
8. Merits, demerits, deficiencies or strengths of the organization with respect to topic under study
9. Conclusion (one page brief covering important aspects of your report)
10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

INTERNATIONAL FINANCE (578)

COURSE OUTLINE

Unit–1: International Business and Finance

- 1.1 International business
- 1.2 Multinational financial activities
- 1.3 Multinational corporations.
- 1.4 International monetary system
- 1.5 Currency values and terminology
- 1.6 Fixed versus flexible exchange rates
- 1.7 Contemporary currency arrangements
- 1.8 The European Monetary System (EMS)

Unit–2: Balance of Payments

- 2.1 Balance of payments accounting
- 2.2 The balance of payments accounts
- 2.3 Current account
- 2.4 Capital account
- 2.5 Statistical discrepancy
- 2.6 Official reserve account
- 2.7 Major country trends in trade and capital flows
- 2.8 Balance of payment adjustments and equilibrium

Unit–3: The Foreign Exchange Market

- 3.1 Functions of the foreign exchange market
- 3.2 Market participants
- 3.3 Foreign exchange rates and quotations
- 3.4 The spot market
- 3.5 The forward market
- 3.6 Parity conditions
- 3.7 Prices and exchange rates
- 3.8 Exchange rate forecasting
- 3.9 Purchasing power parity
- 3.10 PPP deviations and real exchange
- 3.11 Foreign currency options market
- 3.12 Option pricing and valuation

Unit–4: Foreign Exchange Exposure and Management

- 4.1 Types of foreign exchange exposure
- 4.2 Measurement of transaction exposure
4. Measuring economic exposure
- 4.4 Operating exposure
- 4.5 Forward, Money market, and Options market hedge
- 4.6 Exposure netting
- 4.7 Transnational exposure

- 4.8 Translation methods
- 4.9 Hedging translation exposure
- 4.10 Contractual hedges
- 4.11 Natural hedge
- 4.12 Avoiding and taking exchange risks

Unit–5: International Markets and Portfolio investments

- 5.1 International banking
- 5.2 Types of international banking offices
- 5.3 International money market
- 5.4 The world's bond markets
- 5.5 International equity markets
- 5.6 Market structure, trading practices and costs
- 5.7 Factors affecting international equity returns
- 5.8 Futures and options on foreign exchange
- 5.9 Currency and interest rate swaps
- 5.10 Currency risk and overseas investments
- 5.11 Global risk diversification
- 5.12 Effect of fluctuating exchange rates
- 5.13 Performance of International mutual funds

Unit–6: Working Capital Management

- 6.1 Constraints on positioning funds
- 6.2 International dividend remittances
- 6.3 Managerial incentives and evaluation
- 6.4 Transfer pricing and related issues
- 6.5 Blocked funds
- 6.6 Managing international cash balances
- 6.7 Cash receipts and payments
- 6.8 Managing receivables and payables
- 6.9 Inventory management
- 6.10 Working capital costs

Unit–7: Capital Structure and Capital Budgeting

- 7.1 Theory of optimal capital structure
- 7.2 Financial structure of foreign affiliates
- 7.3 Cost of capital
- 7.4 Cost of capital in segmented versus integrated markets
- 7.5 The financial structure of subsidiaries
- 7.6 Capital budgeting decisions
- 7.7 Project evaluation
- 7.8 Risk adjustment in the capital budgeting analysis
- 7.9 Sensitivity analysis
- 7.10 Foreign complexities

Unit–8: Financing from a Global Perspective

- 8.1 Internationalizing the cost of capital
- 8.2 Designing the financial structure
- 8.3 Choosing among the sources of financing
- 8.4 Cross listing on foreign stock exchanges
- 8.5 Barriers to cross listing
- 8.6 Sourcing new equity shares in international markets
- 8.7 Sourcing debt internationally
- 8.8 International bank loans
- 8.9 The international bond market and Euro note market
- 8.10 Management of interest rate risk
- 8.11 Outright instruments and techniques

Unit–9: Trade Financing

- 9.1 Foreign trade transactions
- 9.2 Government assistance in exporting
- 9.3 Counter trade
- 9.4 Import and export financing
- 9.5 Letter of credit
- 9.6 Draft
- 9.7 Additional documents
- 9.8 Role of banks in international trade
- 9.9 Types of risk
- 9.10 Risk analysis and management

Recommended Books:

- (1) International Financial Management By Eun, Resnick
- (2) Multinational Business Finance By Eiteman, Stonehill, Moffett

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