

<b>Course Title</b>	:	International Finance
<b>Course Code</b>	:	ECO4306
<b>Recommended Study</b>	:	3 and 4
<b>Year</b>	:	3
<b>No. of Credits/Term</b>		
<b>Mode of Tuition</b>	:	Lecture-Tutorial
<b>Class Contact Hours</b>	:	3 hours per week
<b>Category in Major Prog.</b>	:	Major in Economics (Elective Course)
<b>Discipline</b>	:	Economics
<b>Prerequisite(s)</b>	:	(a) ECO2101 Introduction to Economics, or (b) Level 3 or above in HKDSE Economics, or (c) BUS2105 Microeconomics for Business
<b>Co-requisite(s)</b>	:	N/A
<b>Exclusion(s)</b>	:	N/A
<b>Exemption</b>	:	N/A
<b>Requirement(s)</b>		
<b>Restriction</b>	:	FIN3352 International Financial Management

### **Brief Course Description**

Today's financial markets are truly global in nature. This course attempts to cover the practical issues of international finance and summarises the current literature with only elementary math as a prerequisite. The practical questions include, but are not limit to, where to borrow and invest internationally, what different types of international bonds and stocks can be used to raise capital, how exchange rates affect cash flows, what can be done to avoid foreign exchange exposure and risk, and the general financial management problems of doing business in the global environment.

### **Aims**

This course aims to:

1. introduce students a full set of concepts in international finance;
2. help students to understand what determines exchange rate;
3. learn a set of tools to analyse exchange rate risks;
4. apply knowledge to manage those risks.

### **Learning Outcomes (LOs)**

Upon completion of this course, successful students should be able to:

1. explain the basic demand and supply approach for exchange rate determination;
2. apply the basic skills for international arbitrage;
3. use the currency derivatives to hedge the exchange rate risk; and
4. predict different effects from exchange rate changes upon macro or micro economy.

### **Indicative Contents**

- I. The balance of payments
- II. The foreign-exchange market
- III. International monetary systems
- IV. Exchange rates in the short run
- V. Exchange rates in the long run
- VI. Theories of the current account
- VII. Open-economy macroeconomics
- VIII. International banking, debt, and risk

### **Teaching Method**

There is one 2-hour lecture and one 1-hour tutorial per week. I expect that students will read the textbook on their own and come to lecture ready to discuss content, ask questions, and apply content to current events and/or supplemental materials in the textbook (see below). Quizzes of multiple choice questions (MCQs) will serve as incentives for students to read the chapter and come to lecture prepared. Earning more than 25% on these quizzes will ensure that students can view a video of me lecturing on the material in order to provide students with greater detail.

To operationalize this method, the timeline in this outline indicates the dates and times by which students should have read chapters (or parts thereof) and completed the quizzes. Students will have a 24-hour window during which they can complete each quiz.

Students will have the opportunity to present their solutions to optional homework problems (which will resemble exam questions) during tutorial. One-two weeks of the course will use a “flipped classroom” pedagogy.

### **Measurement of Learning Outcomes**

1. Quizzes administered on a regular basis (online and in lecture) will ensure that students 1) revise on a regular basis, 2) do not fall behind in learning factual

material, and 3) receive the opportunity to practice simple intellectual analysis. Some quizzes may consist of multiple-choice questions while others will be open-ended. There will be no make-ups for quizzes though the instructor may drop the lowest or 2 lowest quizzes of a term in the event that students miss lecture for various reasons. The instructor will provide additional details in lecture. Lecture quizzes will serve as a means of attendance as well as a gauge of your understanding of recent material. Some quizzes may take place in a student's own time, while others take place during the lecture time. Each week after the first week, students who are seated in class at the beginning of the lecture will take a quiz based on material from the previous week. The quiz will simultaneously 1) gauge whether or not you are present and 2) test your understanding of recent material. The quiz will be out of 4 points: 2 points for attendance (arriving in class and being seated before the session begins, not walking in the door at exactly 30 minutes past the hour) and 2 points for the course material. If you are late to a lecture, you will be able to take the quiz but will receive at most 1 point. **If you have a lecture or tutorial just before the lecture or tutorial for this course and are concerned about arriving on time, see me to discuss the situation.** I will drop the 2 lowest quizzes before calculating your attendance and quiz grade. I.e., you are allowed to miss 2 lectures without fear of penalty. Quizzes are to be taken independently; you may not share materials during the quiz. If I catch you sharing materials, you and the person(s) with whom you are sharing will receive 0 points for that quiz. (LOs 1-4)

2. Midterm and final (non-cumulative) examinations assess students' overall understanding of theories and syntheses the applications of international finance. A student who misses more than one-third of the term may be disqualified from taking the final exam. I reserve the right to enforce this policy if you miss more than one-third of lectures (that is to say, if you miss 5 or more lectures) and more than one-third of all tutorials or the equivalent (e.g., miss no tutorial but miss 8 lectures). Also, if you have added this class late and miss the first lecture, that missed lecture will count as an absence: see Academic Regulations 12.8 (<https://www.ln.edu.hk/f/upload/44090/arup4.pdf>). (LOs 1-2 for the midterm) and (LOs 3-4 for the final exam)
3. For the exchange rate determination project, students will undertake a project to test standard theories that explain exchange rates using macroeconomic fundamentals (price levels, money supplies, interest rates, GDP). Students shall undertake this project in groups. The exact size of the groups will depend on the number of students in the class. Students will earn marks based on a presentation that they give of their findings (see rubric). The instructor will provide more details on the project in lecture including dates for the presentations.

4. The instructor will follow a Socratic method in which the instructor poses questions to the students and facilitates classroom discussion. Students who answer promptly and fully will receive participation points to reward them for engaging fully in the academic community and demonstrating a commitment to the class. Students who do otherwise will receive few to no points as befits those who seek “to free ride” on the work of others. (LOs 1-4)

### **Assessment**

Midterm examination	32%
Final examination (non-cumulative)	32%
Quizzes	12%
Classroom participation	12%
Exchange rate determinaiton project	12%

Once in lecture or tutorial, you must behave with maturity and professionalism. What constitutes maturity and professionalism? In particular, you must pay attention, take notes, and ask questions. I do not allow you to photograph the lecture slides. If I catch you photographing the lecture slides, I will lower your final grade by 1 subgrade (e.g., a B becomes a B-). There will be a 10-minute break during the lecture during which you may ask to see again particular slides from the day’s or previous week’s lecture. I will allow you to make an audio recording of the lecture if you 1) ask my permission and 2) promise to use the lecture solely for your individual use (i.e., do not share the recording with your friends or post it online). Also, do not fall asleep in class. If I catch you with your head on your desk or engaged in any behavior resembling sleep, I will lower your final grade by 1 subgrade. Do not hold conversations with your neighbors. Do not interpret this paragraph to be an exhaustive list of how to behave. I reserve the right to create additional mechanisms to ensure correct behavior in this course

### **Required/Essential Reading**

Husted, Steven and Michael Melvin, *International economics: 9<sup>th</sup> Edition*, Pearson, 2013.  
Krugman, Paul, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy: 11<sup>th</sup> Edition*, Pearson, 2018.

### **Recommended/Supplementary Readings**

Chou, W. L. and Shih, Y.C., “The Equilibrium Exchange Rate of the Chinese Renminbi”,

- Journal of Comparative Economics*, 26, 165-74, 1998.
- Eiteman, David, Arthur Stonehill and Michael Moffett, *Multinational Business Finance*, 7<sup>th</sup> Edition, Addison-Wesley, 1995.
- Francisco L. Rivera-Batiz and Luis A. Rivera-Batiz, *International Finance and Open Economy Macroeconomics*, 2<sup>nd</sup> Edition, Macmillian Publishing Company, 1994.
- Krugman, Paul, Pricing to Market When the Exchange Rate Changes, In *Real Financial Linkages among Open Economies*, edited by Sven W. Arndt. and J. David Richardson, The MIT Press, 48-70, 1987.
- Levi, Maurice, *International Finance*, 3<sup>rd</sup> Edition, McGraw Hill, 1996.
- Madura, Jeff, *International Corporate Finance*, 8<sup>th</sup> Edition, Thomson South-Western Publishing Company, 2006.
- Rogoff K., “The Purchasing Power Parity Puzzle”, *Journal of Economic Literature*, XXXIV, 647-68, 1996.

### **Warning against plagiarism**

Sources of quotations should be spelled out clearly. Taking others’ writings as one’s own is plagiarism and will be taken seriously and punished accordingly.

### **Important Notes:**

- (1) Students are expected to spend a total of 9 hours (i.e. 3 hours of class contact and 6 hours of personal study) per week to achieve the course learning outcomes.
- (2) Students shall be aware of the University regulations about dishonest practice in course work, tests and examinations, and the possible consequences as stipulated in the Regulations Governing University Examinations. In particular, plagiarism, being a kind of dishonest practice, is “the presentation of another person’s work without proper acknowledgement of the source, including exact phrases, or summarised ideas, or even footnotes/citations, whether protected by copyright or not, as the student’s own work”. Students are required to strictly follow university regulations governing academic integrity and honesty.
- (3) Students are required to submit writing assignment(s) using Turnitin.
- (4) To enhance students’ understanding of plagiarism, a mini-course “Online Tutorial on Plagiarism Awareness” is available on <https://pla.ln.edu.hk/>.
- (5) Academic Regulation 12.8 states “A student whose accumulated leave of absence exceeds one-third of the term should not be assessed and awarded credits for the courses enrolled in the term.”

### **Tentative Schedule**

Lecture Date	
17-Jan-23	Intro/Chapter 3
24-Jan-23	CNY
31-Jan-23	Chapter 2
7-Feb-23	Chapter 4
14-Feb-23	Chapter 5
21-Feb-23	Sports Day
28-Feb-23	Midterm
7-Mar-23	Exchange rate determination project overview
14-Mar-23	Chapter 6
21-Mar-23	Chapter 7 part 1
28-Mar-23	Chapter 7 part 2
4-Apr-23	Chapter 8 part 1 - exchange rate determination project presentations in class
11-Apr-23	Chapter 8 part 2
18-Apr-23	Chapter 9

### Rubric for Classroom participation

Marks	Descriptor
6	The student is prepared, readily contributes to the conversation but doesn't dominate it; makes thoughtful contributions that advance the conversation; shows interest in and respect for others' views; participates actively in small groups.
5	The student comes to class prepared and makes thoughtful comments when called upon; contributes occasionally without prompting; shows interest in and respect for others' views; participates actively in small groups.  A score of 5 may also be appropriate to an active participant whose contributions are less developed or cogent than those of a 6 but still advance the conversation.
4	The student participates in discussion, but in a problematic way. Such students may talk too much, make rambling or tangential contributions, take an unnecessarily long time to respond, continually interrupt the instructor with digressive questions, bluff their way when unprepared, or otherwise dominate discussions, not acknowledging cues of annoyance from instructor or students.
3	The student comes to class prepared, but does not voluntarily contribute to discussions and gives only minimal answers when called upon. Nevertheless the student shows interest in the discussion, listens attentively, and takes notes.
2-1	The student is on the margin of the class and does not participate.

### Rubric for Quizzes

Excellent: 4 marks	Acceptable: 2-3 marks	Poor: 1 mark
The response is from appropriate, clear, direct, and accurate.	The information in the response is mostly relevant and generally correct.	The response contains several factual errors.

Grading Rubric for Flipped-classroom activities

Criteria	Exemplary	Accomplished	Developing	Beginning	Fail
<b>Thesis &amp; Focus</b>	<ul style="list-style-type: none"> <li>Fully addresses the questions and demonstrates a thorough and accurate understanding of the important issues or themes in the questions; Connects questions to broader issues in theories/concepts and real life</li> <li>Clear, precise, original, well-defined and well-positioned answers which are sophisticated in both statement and insight</li> </ul>	<ul style="list-style-type: none"> <li>Demonstrates a rather complete understanding of the important issues or themes in the questions relating to theories/concepts and real life</li> <li>Clear, specific, argumentative answers, may have left minor terms undefined</li> </ul>	<ul style="list-style-type: none"> <li>Demonstrates an incomplete understanding of the important issues or themes in the questions but attempts to relate theories/concepts and real life</li> <li>Some intelligible ideas, but the answer is weak, unclear, or too broad, may not define several central terms</li> </ul>	<ul style="list-style-type: none"> <li>Demonstrates severe misconceptions about the important themes or issues; Fails to connect to theories/concepts or real life</li> <li>Answers vague or not central to argument, central terms not defined</li> </ul>	<b>Plagiarism</b>
<b>Analysis &amp; Argumentation</b>	<ul style="list-style-type: none"> <li>Thoroughly interprets and evaluates the information; Distinguish among fact, opinion and value judgments</li> <li>Comprehensively analyzes and synthesizes the issues from multiple perspectives or dimensions</li> <li>Evaluates implications and complications or responds to counter-arguments</li> </ul>	<ul style="list-style-type: none"> <li>Information with some interpretation and evaluation; Attempts to distinguish from fact, opinion and value judgments</li> <li>Offers analyses and evaluations of obvious alternative points of view, perspectives or dimensions</li> <li>Most ideas are elaborated</li> </ul>	<ul style="list-style-type: none"> <li>Interprets and evaluates information, but may overlook some important information</li> <li>Superficially evaluates obvious alternative points of view, perspectives or dimensions</li> <li>Connections between some ideas and facts are not elaborated clearly</li> </ul>	<ul style="list-style-type: none"> <li>Lists information without justification</li> <li>Superficially analyzes or synthesizes the issues</li> <li>Single perspective is discussed</li> <li>Connections between ideas and facts are not made</li> </ul>	
<b>Evidence &amp; Support</b>	<ul style="list-style-type: none"> <li>Evidence is very relevant, accurate, complete, well documented and integrated, and appropriate to support the arguments</li> <li>A wide range of relevant scholarly sources is used and assessed analytically and critically, including lectures and course readings and information not explicitly discussed in class</li> <li>Provides detailed and proper footnotes/endnotes</li> <li>Correct citation of sources</li> </ul>	<ul style="list-style-type: none"> <li>Provides necessary evidence to convince reader of most aspects of the main argument but not all</li> <li>Evidence is relevant, accurate, and well documented, but may not well integrated</li> <li>Some variety of sources are used</li> <li>Provides some details in footnotes/endnotes</li> <li>Citation style often used correctly</li> </ul>	<ul style="list-style-type: none"> <li>Some evidence but not enough to develop argument in unified way</li> <li>Evidence may be inaccurate, irrelevant, or inappropriate to support the arguments</li> <li>Uses only a few of the sources provided in class, or does not analyze the sources</li> <li>Provides limited detail in footnotes/endnotes</li> <li>Frequent errors in citation style</li> </ul>	<ul style="list-style-type: none"> <li>Much of information included is irrelevant and inadequate to support the arguments with numerous factual mistakes, omissions or oversimplifications</li> <li>Only minimally uses sources provided in class without any analysis, or relies exclusively on non-scholarly outside sources</li> <li>No citation or footnotes/endnotes or incorrectly cites the sources</li> </ul>	
<b>Writing, Structure, and Delivery</b>	<ul style="list-style-type: none"> <li>Solid topic sentences in paragraphs</li> <li>Each sentence structured effectively, rich, well-chosen variety of sentence styles and length</li> <li>Almost entirely free of spelling, punctuation, and grammatical errors</li> <li>Well organized, clear and presents ideas in a coherent and analytical manner</li> <li>Clear delivery, pronunciation, and slides</li> </ul>	<ul style="list-style-type: none"> <li>Acceptable topic sentences in paragraphs</li> <li>Effective and varied sentences; Some errors in sentence construction</li> <li>May contain a few errors, which may annoy the reader but not impede understanding</li> <li>Clear delivery, pronunciation, and slides with occasional problems</li> </ul>	<ul style="list-style-type: none"> <li>Weak topic sentences in paragraphs</li> <li>Sentences show errors of structure and little or no variety</li> <li>Contains several mechanics errors, which may confuse the reader but not impede the overall understanding; Careful proofreading not evident</li> <li>Halting or uninspired delivery, mediocre pronunciation, slides with multipel problems</li> </ul>	<ul style="list-style-type: none"> <li>Poor topic sentences in paragraphs</li> <li>Multiple and serious errors of sentence structure</li> <li>Contains serious errors that block the reader's understanding; Proofreading not evident</li> <li>Poor delivery, distracting slides.</li> </ul>	



Grading Rubric for midterm and final examinations

	4 marks	3 marks	2 marks	1 mark	0 marks
Analysis	The response has a clear thesis that is analytically interesting and creative, plausible; the analysis has impressive depth	The response meets most of the criteria listed in the column to the left, but is lacking in one or more of them-or accomplishes all of them at a slightly lower level than excellence	The response has an identifiable thesis, but it may be a bit mundane or uninteresting, and not particularly creative; the analysis is superficial	The response has an identifiable thesis, but it is not analytically interesting, plausible; there is little analysis	The response lacks any clear thesis and little to no analysis.
Documentation	The response provides ample evidence in support of its thesis, with no extraneous detail; evidence is well-connected to the thesis; documentation is clear.	The response provides significant amounts of supporting evidence, well-connected to the thesis; some detail is extraneous; documentation is mostly clear.	The response provides supporting evidence, but less than is needed to make the argument; there is a significant amount of extraneous detail; documentation is incomplete or unclear.	The details of the response relate very thinly to a main argument; the evidence is poorly documented.	The response provides little to no evidence in support of a main argument; most evidence provided is undocumented.
Organization	All writing relates to the thesis in a clear manner; individual paragraphs have a clear focus; there are clear transitions between paragraphs or ideas when appropriate; the order in which the ideas are presented makes sense.	Nearly all writing relates to the thesis in a clear manner; all or most individual paragraphs have a clear focus; there are generally clear transitions between paragraphs or ideas; the order in which the ideas are presented makes sense.	Most writing relates to the thesis in a clear manner, most individual paragraphs have a clear focus, and the order in which the ideas are presented generally makes sense; but there are often unclear transitions between ideas.	Most writing relates to the thesis in a clear manner, most individual paragraphs have a clear focus; it is often unclear why ideas are presented in their particular order, and there are often unclear transitions between ideas.	The response is extremely disorganized to the point that the order in which ideas are presented appears virtually random.
Language skills	The writing displays excellent English language skills, with few mistakes, and is easily understandable	The writing contains several fairly minor errors, but the writing is clear and understandable	The writing contains several minor errors and/or a few major ones; the writing is mostly clear but may be difficult to understand in places.	The writing contains numerous writing errors that are serious enough that the paper is very difficult to understand	The writing contains an unacceptably large number of writing errors, major or minor, to the point of making it difficult or impossible to understand.