

PEKING UNIVERSITY

International Finance Professor ZHAO Longkai

1.COURSE OBJECTIVES

This course aims to introduce students to the main issues in international finance. By the end of the course, students should understand a) the mechanisms of the international financial markets and the relevant institutions, b) financial management of the multinational firms, and c) tools of international financial management and investment. The course will also discuss modern issues in international financial policies.

2.READING

The required textbook for the course is: International Financial Management, by Cheol S. Eun and Bruce G. Resnick, 4nd edition (or later edition), (ER) McGraw Hill. Supplementary reading materials will be provided.

Reference texts:

Brealey, R.A., Myers, S.C., and Allen, F., (2006), Principles of Corporate Finance, 8th Edition, McGraw Hill.

Buckley, A., Multinational Finance, 5th edition, Financial Times – Prentice Hall, 2004.

Michael H. Moffett, Arthur I. Stonehill and David K. Eiteman, 2003, Fundamentals of Multinational Finance, Addison-Wesley

Bruno Solnik, (Most Recent Version) International Investments, Addison-Wesley

3. COURSE ADMINISTRATION

Lecturer: Dr. Longkai Zhao

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4. LECTURE OUTLINE

Lecture 1: Introduction

- Defining international finance
- Trend of globalization and world financial market

- Privatization

Reading: ER Chapter 1

Optional reading:

Meggison W., Netter J. M., 2001, "From State to Market: A Survey of Empirical Studies on Privatization," *Journal of Economic Literature*, 39, 321-389

Reference: Ross, Stephen A., Randolph W. Westerfield, and Jeffrey F. Jaffee, *Corporate Finance*, 6th ed. New York: Irwin/McGraw-Hill, 2002

Lecture 2: Multinational Corporations and FDI

- Why do firms go overseas
- Trends in Foreign Direct Investment
- Political risks

Reading: ER Chapter 16

Optional reading:

Morch, Randall, and Bernard Yeung. "Why Investors Value Multinationality." *Journal of Business* 64 (1991), pp. 165-187

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., 2005. "Capital controls, liberalizations, and foreign direct investment", working paper

Lecture 3: International Corporate Governance

- The mechanism of corporate governance
- Law, culture, and finance

Reading: ER Chapter 4

Optional reading:

La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, (1998), "Law and Finance," *Journal of Political Economy*, 106:6, pp. 1113-1155.

La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny, (1997), "Legal Determinants of External Finance," *Journal of Finance*, 52:3, pp.1131-1150.

Lecture 4: International Parity Relationships

- Purchasing power parity
- Interest rate parity

Reading: ER Chapter 6

Optional reading:

"Burgers or beans?" *Economist*, Jan 15th, 2004

Lecture 5: Hedging Foreign Exchange Risk

- Futures and options on foreign exchange
- Hedging strategies

Reading: ER Chapter 7, 8

Optional reading:

Sohnke M. Bartram, 2008, "What lies beneath: Foreign exchange rate exposure, hedging and cash flows," *Journal of Banking and Finance* 32, 1508-1521.

Don M Chance, 1999, "Research trends in derivatives and risk management since Black-Scholes," *Journal of Portfolio Management*, May, p35

Lecture 6: International Portfolio Management: Part I

- Define risk and return
- International Diversification

Reading: ER Chapter 15

Optional reading:

Christopher Wright, 2008, "Investors are going beyond emerging markets and blazing new trails." *CFA Magazine*, Sept-Oct. P30

Lecture 7: International Portfolio Management: Part II

- International asset allocation
- The bottom-up and top-down approach

Reading: ER Chapter 15

Optional reading:

United Nations: "World Investment Report", 2007.

Lecture 8: International Financial Markets

- The international bond market
- The international equity market

Reading: ER Chapter 12, 13

Optional reading:

Gande, Amar, and Davide C. Parsley., 2005. "News spillovers in the sovereign debt market." *Journal of Financial Economics* 75, 691-734

Lecture 9: International Capital Structure

- The determination of international capital structure
- The cost of capital

Reading: ER Chapter 17

Optional reading:

Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr. 2006, "Capital structure with risky foreign investment." Working paper

Li, K., Yue, H., Zhao, L., 2008. "Ownership, institutions, and capital Structure: evidence from Chinese firms". Peking University Working Paper.

Lecture 10: International Capital Budgeting

- The adjusted present value model
- Capital Budgeting from the parent firm's perspectives

Reading: ER Chapter 18

Lecture 11: Class Presentation

- Project Presentations

Final

5. COURSE EVALUATION

Course evaluation is based on:

- 1). Class participation (10%)
- 2). Assignment and exam (50%)
- 3). Project: presentation and report (40%)