

FAR WESTERN UNIVERSITY

Faculty of Management

Course Title: **International Finance**

Total Marks: 100

Course Code: **MGT 372**

Pass Marks: 45

Nature of course: Theory

Time per period: 1 hr.

Semester: Seventh

Total periods: 45

Level: BBA

Credit hours: 3

1. Course Introduction:

The course is designed to provide the learning inputs to the students to enable them to enhance the students' understanding of the international financial market and impart them skills required to manage the financial risks of firm operating in the international environment.

2. Course Objectives

The general objectives of the course are as follows:

- To acquaint the learners with importance, nature and process of international finance.
- To acquaint the learners with Exchange rates.
- To enable the learner to identify foreign exchange risk and exposures.
- To enable the learners to understand the international trade, instruments and institutions.
- To acquaint the learners with the foreign direct investment and foreign portfolio investment.

3. Specific Objectives and Course Contents

Specific Objectives	Contents in Details
<ul style="list-style-type: none">• To identify the factors that lead to the prominence of international finance as an academic discipline and a business activity.• To verify the internationalization of finance by several indicators.• To explain the concept and principle of balance of payment.	<p>Unit I: International financial markets & Environment (5)</p> <p>1.1 Unique dimensions of international finance</p> <p>1.2 The benefits of studying international finance</p> <p>1.3 The growing importance of international finance</p> <p>1.4 Balance of payment; Concepts and principles of balance of payment and its various components.</p> <p>1.5 The Current Account Deficit and Surplus</p>

<ul style="list-style-type: none"> • To present some facts about the observed behavior of exchange rates. • To describe the theoretically possible international monetary systems and exchange rate arrangements according to degree of flexibility of the exchange rate. • To describe options and their valuation. 	<p>Unit II : The Market For Foreign Exchange (15)</p> <p>2.1 Organization of the inter-bank spot market</p> <p>2.2 Delivery and settlement</p> <p>2.3 Retail Vs. inter-bank spot rates</p> <p>2.4 Customer draft and wire transfer</p> <p>2.5 Spot exchange rates</p> <p>2.6 Direct Vs. indirect exchange</p> <p>2.7 Cross-exchange rates</p> <p>2.8 Forward and future contracts on foreign exchange market</p> <p>2.9 Forward exchange premium and discount</p> <p>2.10 Forward rates Vs. expected future spot rates</p> <p>2.11 Currency futures, future contracts vs. forward contract and their pay off comparisons</p> <p>2.12 Valuation of option; General Valuation</p>
<ul style="list-style-type: none"> • To explain purchasing power parity. • To contrast the interest parity and purchasing power parity relationship. 	<p>Unit III: International Parity Conditions (3)</p> <p>3.1 Law of one price</p> <p>3.2 Absolute and relative form of purchasing power parity(PPP)</p> <p>3.3 The empirical evidence on PPP</p> <p>3.4 Covered and Open interest parity conditions, combining interest parity and PPP</p>
<ul style="list-style-type: none"> • To define risk and exposure and to distinguish between them, concentrating on foreign exchange risk and exposure. • To measure the extent of risk arising from changes in Dollar exchange rates. • To explain the foreign exchange risk and parity relationship, 	<p>Unit IV: Managing Foreign Exchange Exposure & Risk (8)</p> <p>4.1 The importance of understanding risk and exposure and measuring them</p> <p>4.2 Nature of exchange rate risk and exposure</p> <p>4.3 Exposure on domestic assets and liabilities</p> <p>4.4 Foreign Exchange Risk</p> <p>4.5 Exposure, risk, and the parity relationship</p> <p>4.5 Operating exposure of importer and exporter</p> <p>5.5 The effect of currency of invoicing; To hedge; hedging with futures, forwarded, currency of invoicing, swaps.</p>

<ul style="list-style-type: none"> • To describe the techniques of international capital budgeting. • To examine the implications of taxation, country risk and transfer pricing for international capital budgeting. 	<p>Unit V : International Dimensions of Capital Budgeting (5)</p> <p>5.1 Selecting Projects</p> <p>5.2 Difficulties in evaluating foreign projects</p> <p>5.3 Cash flows: Home Vs. Foreign Perspectives</p> <p>5.2 Adjusted Present Value Technique</p> <p>5.3 Selecting the appropriate discount rates</p>
<ul style="list-style-type: none"> • To examine the letter of credit in perspective of foreign trade. • To explain various forms of financing of imports and exports • To know the institutions those regulating international trade. 	<p>Unit VI: International Trade, Instruments and Institutions (3)</p> <p>6.1 Letter of credit and its role in financing international trade</p> <p>6.2 Various forms of financing of imports and exports</p> <p>6.2 Institutions regulating international trade</p>
<ul style="list-style-type: none"> • To describe the basic characteristics of foreign direct investment. • To outline the theories that has been devised to explain foreign direct investment. • To analyze the crisis faced by American and Asian Economies. 	<p>Unit VII: Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) (6)</p> <p>7.1 Risks in foreign investment vs. Domestic investment</p> <p>7.2 Global FDI market</p> <p>7.3 Nepal’s prospects and problems in tapping FDI</p> <p>7.4 The benefit of international portfolio investment</p> <p>7.5 Segmentation Vs. Integration of capital markets</p> <p>7.6 Cost and benefit of opening economy for FPI</p> <p>7.7 Analytical discussion of crisis faced by American and Asian Economies.</p>

4. Basic Text book

1. Levi, Maurice D.: International Finance, McGraw-Hill International Edition.

Reference Books

1. Copeland, Laurence: Exchange Rates and International Finance, Addition- Wesley.
2. Bowen, Harry P.: Applied International Trade Analysis (Studies in International Trade policy), Univ. of Michigan press.
3. Melvin, Michael: International Money and Finance, Addison-Wesley.
- Grabbe, J. Orlin: International Financial Markets, Prentice- Hal