This course sets the conceptual and empirical foundations for understanding: (1) the operation of international financial markets, including foreign exchange, international money and capital markets, and currency derivatives; and (2) business financial management within the international financial environment. The emphasis is on how investors and firm managers can make use of global financial markets in making decisions about raising and allocating capital. Topics include the characteristics and efficiency of foreign exchange markets; exchange rate determination; international parity conditions; currency risk hedging; international portfolio diversification; cross-border mergers and acquisitions; multinational capital structure and cost of capital. It is assumed that students have completed the MSF/MBA Financial Management core course.

Course Requirements

Students are encouraged to participate in all class discussions. Class discussions and lectures will draw on, and supplement, the reading assignments listed below (although we may not explicitly discuss in class all the readings listed below). As we shall be covering a fair amount of material, students should read or at least skim over the assigned readings before coming to class. Grading will be based on a midterm exam (30%); a comprehensive final examination (40%); homework assignments (20%) and class participation (20%). Students are expected to abide by the University of Illinois Student Code rules with respect to academic integrity.

Reading Assignments

Readings are drawn from the textbook, as well as supplementary sources which will be made available on the Compass course website. The textbook is

Reading List

A. The international financial environment
   I. Foreign exchange markets
   II. Exchange rates and the international monetary system

B. International financial markets
   III. Forward exchange rates and Eurocurrency markets
   IV. Foreign currency futures
   V. Foreign currency options
   VI. Financial swaps

C. Global investing
   VII. International portfolio diversification
   VIII. Cross-border mergers and acquisitions

D. Multinational corporate financial policies
   IX. Exchange rate risk management
   X. Capital budgeting and foreign investment analysis
   XI. International financing and the cost of capital