

財務分析師 CFA 模組計課程之目的與未來方向—國貿系傅冶天撰

財務分析師 CFA 模組計有四門課財務管理(上學期)、投資學(下學期)、國際投資(上學期)、固定收益證券(下學期)。

本模組將可協助修課學生準備 CFA 考試中之多個課目中之四門。並可提高此四門課程與國際課程與國際證照之積極性及接軌,有利學生也有利於招收國際交換生。

## National Cheng-Chi University

Undergraduate: Tuesdays 9:10-noon Commerce TBA

Yee-Tien (Ted) Fu  
Autumn 2010 (3 units)COURSE OBJECTIVE

This course examines important issues in the rapidly evolving area of international financial markets. It focuses on various aspects of international portfolio management and open-economy macroeconomics, and is a natural extension to the theories and practical issues explored in Investments and/or Finance.

This course is aimed at students wishing to acquire a sound understanding of the main opportunities in international investments. For example, the relevance of hedging in the management of currency risk will be studied in light of theoretical results and empirical evidence. We will also briefly cover *foreign direct investment (FDI)*, since in general, the revenue generated from FDI by U.S. firms is about three times as large as the revenue generated from the exporting of U.S. goods by U.S. firms.

Due to the ever increasing importance of *international corporate governance*, there is a corresponding need to decipher and use information in financial reports. At least one class meeting and one case study will touch on some key issues in international financial reporting and analysis, such as financial disclosure/transparency, incentives for off-balance sheet liabilities, hedge accounting, lease accounting, footnote disclosures, and intercorporate equity investments, and international financial reporting differences.

We will also use many real-life examples from market practices to emphasize the engineering dimensions of financial contract design (*financial engineering*), that market practitioners professionalize by blending theory with practice. Real financial contract examples will be discussed along with the relevant sections of the Levich text during the progress of this course. Recent practices on international financial innovation and global financial risk analysis will also be studied with selected cases.

OVERVIEW

In this course, we explore the characteristics of international financial markets and examine some international aspects of corporate financial management. In the sections dealing with international financial markets, we address a standard set of questions including:

- What are the essential institutional and organizational features of the market place?
- What are the fundamental determinants of prices and price relationships in the market?
- Are market prices set efficiently in relation to a theoretical model, or are there evidences of market inefficiencies or shortcomings in the theoretical models?
- What are the major policy decisions faced by private individuals and institutions, as well as public policymakers and regulatory agencies, in each market?

In the topics that relate primarily to corporate financial management, our emphasis is on how a financial manager should use his/her knowledge of international financial markets to address questions such as:

- How can we measure the firm's exposure to financial and operational risks?
- How can we manage the firm's exposure to financial and operational risks?
- How can we evaluate international projects and exploit differences in the cost of capital?

ASSIGNMENTS AND GRADING

Problem Sets	30% (Due Dates will be announced)
Mid-term	30% (Close Book, Open Formula Sheets)
Final	40% (Open Book, Open Notes)

HOW TO REACH ME

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TEXT

Required Text:

Richard M. Levich, *International Financial Markets: Prices and Policies*, 2<sup>nd</sup> Ed., McGraw-Hill/Irwin, 2001, ISBN: 0-07-233865-2.

-or-

the more complete Adobe Acrobat eBook titled *International Investments 2007*, which is actually a four-in-one (Levich: *International Investments* 2E, Jorion: *Value at Risk* 3E, Penman: *Financial Statement Analysis and Security Valuation* 3E, and King & King: *International Economics and International Economics Policy: A Reader* 4E) with an ISBN of 0390882771.

Recommended Reading (In descending order of relevance):

1. David G. Luenberger, *Investment Science*, Oxford University Press, 1997, ISBN: 0-19-510809-4.
2. Philippe Jorion, *Value at Risk*, Irwin/McGraw-Hill, 2007, ISBN: 0-07-1464956.
3. Robert Feenstra and Alan M. Taylor, *International Economics*, Worth Publishers, 2008, ISBN: (in the form of a course reader available from Stanford Bookstore)
4. Levich, et. al., *International Investments*, 1<sup>st</sup> Ed., McGraw-Hill, 2006, ISBN: 0-390-71195-0.
5. Chacko, et al., *Financial Instruments & Markets: A Case book*, Wiley, 2006, ISBN: 0-471-73767-4.
6. Desai, Mihir A., *International Finance: A Case book*, Wiley, 2006, ISBN: 0-471-73768-2.
7. Neftci, Salih N., *Principles of Financial Engineering*, Academic Press, 2004, ISBN: 0-12-515394-5.
8. Bruno Solnik, et. al., *International Investments*, 5<sup>th</sup> Ed., Addison-Wesley, 2004, ISBN: 0-201-78568-4
9. Shapiro, Alan C., *Multinational Financial Management*, 8<sup>th</sup> Ed., Wiley, 2006, ISBN: 0-471-73769-0.
10. McDonald, Robert L., *Derivatives Markets*, 2<sup>nd</sup> Ed., Addison-Wesley, 2006, ISBN: 0-321-28030-X.
11. Mankiw, N. Gregory, *Macroeconomics*, 6<sup>th</sup> Ed., Worth Publishers, 2007, ISBN: 0-7167-6213-7.
12. Marthinsen, John, *Risk Takers*, Addison-Wesley, 2005, ISBN: 0-321-19748-8.

COURSE OUTLINE AND ASSIGNMENTS

Note that this is a plan. Adjustments may be made from time to time. HW Dues Dates will be announced. In-class Midterm and Final Exam dates will be announced.

Lecture 1	<p><b>Introduction</b></p> <p>Some samples of the topics to be covered in the course, including foreign direct investment (FDI), the law of one price, a macroeconomic theory of the open economy, parity conditions, examples of interest rate parity and covered interest arbitrage, swaps &amp; linkages across international capital markets, CFA exam questions.</p> <p>READING ASSIGNMENT: Ten short <i>Wall Street Journal</i>, <i>BusinessWeek</i> and <i>Economist</i> articles (urls of news article are provided in <i>sample slides of</i></p>
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	<i>International Investments</i> ).
Lecture 2	<p><b>Market Structure and Institutions</b></p> <p>TOPICS: Market participants; volume, composition, and growth of trading, foreign exchange products and activities, the relationship between spot and forward contracts, synthetic contracts (the replicating portfolio idea), trends toward automated trading, controls over trading.</p> <p>ASSIGNMENT: Levich Chapter 3, Exercises 1, 2, 6, 7, 10. (Due on TBA)</p>
Lecture 3	<p><b>International Parity Conditions: Purchasing Power Parity</b></p> <p>TOPICS: International parity conditions in a perfect capital market, why parity conditions are useful, absolute and relative PPP, empirical evidence on PPP, policy decisions and PPP.</p> <p>ASSIGNMENT: Levich Chapter 4, Exercises 5, 6, 7. (Due on TBA)</p>
Lecture 4	<p><b>International Parity Conditions: Interest Rate Parity and the Fisher Parities</b></p> <p>TOPICS: Interest rate parity and covered interest arbitrage, the impact of transaction costs, taxes and uncertainty on parity; uncovered interest rate parity or the Fisher International Effect, financial strategies based on deviations from parity, forward rate unbiased condition.</p> <p>ASSIGNMENT: Levich Chapter 5, Exercises 1, 4, 5, 6. (Due on TBA)</p>
Lectures 5,6	<p><b>Determination of Spot Exchange Rates: Theory and Evidence</b></p> <p>TOPICS: Exchanges rates and macroeconomic news announcements, asset models of the spot exchange rate, the monetary model, the sticky-price monetary model, the portfolio balance model; Empirical evidence on exchange rate models, empirical evidence on the role of news.</p> <p>ASSIGNMENT: Levich Chapter 6, Questions 3, 7, 10, 14. (Due on TBA)</p>
Lecture 7	<p><b>Foreign Exchange Market Efficiency</b></p> <p>TOPICS: Theory of exchange market efficiency, interpreting efficient market studies, empirical evidence on spot market efficiency, technical trading models, empirical evidence on forward market efficiency.</p> <p>ASSIGNMENT: Levich Chapter 7, Exercises 1, 2. (Due on TBA)</p>
Lectures 8,9	<p><b>Foreign Exchange Rate Forecasting</b></p> <p>TOPICS: Forecasting under pegged rates versus floating rates, short-run versus long-run forecasts, forecast performance evaluation -- accurate versus useful forecasts; short-run forecast: trends versus random walks, long-run forecasts: is there mean reversion? composite forecasts.</p> <p>ASSIGNMENT: Levich Chapter 8, Exercises 1, 2, 3, 4. (Due on TBA)</p>
Lecture 10	<p><b>The Eurocurrency Market</b></p> <p>TOPICS: Origins of the market, market dimensions and location, pricing Eurocurrency deposits and loans, risks of Eurocurrency deposits, interest rate risk in Eurocurrency loans, competitive responses to offshore markets, approaches to regulating offshore markets.</p> <p>ASSIGNMENT: Levich Chapter 9, Exercises 3, 4, 5. (Due on TBA)</p>
Lecture 11	<p><b>The Eurobond Market</b></p> <p>TOPICS: Origins of the market, market dimensions and currency composition, regulatory and institutional features, primary market practices, the gray market,</p>

	<p>onshore-offshore arbitrage, pricing determinants of Eurobonds, competitive responses - the Rule 144a market.</p> <p>ASSIGNMENT: Levich Chapter 10, Exercises 1, 2. (Due on TBA)</p>
Lecture 12	<p><b>International Bond Portfolios</b></p> <p>TOPICS: Dimensions of national bond markets, calculating the hedged and unhedged returns on international bonds, the "free-lunch" notion in international bond funds, active versus passive currency risk management, empirical evidence on international bonds, Brady bonds, global asset allocation.</p> <p>ASSIGNMENT: Levich Chapter 14, Exercises 1, 2. (Due on TBA)</p>
Lecture 13	<p><b>Currency and Interest Rate Futures</b></p> <p>TOPICS: Institutional differences between futures and forwards, the marking-to-market convention, payoff profiles of futures contracts, futures and hedging, the term structure of forward prices, currency risk premium in forwards, success and failure of new futures contracts, do futures markets effect cash market volatility?</p> <p>ASSIGNMENT: Levich Chapter 11, Exercises 1, 2, 3, 4. (Due on TBA)</p>
Lecture 14	<p><b>Currency and Interest Rate Options</b></p> <p>TOPICS: Option terminology, contract specifications, payoff profiles of options, options and hedging, pricing spot currency options, the discrete time binomial option pricing approach (another replicating portfolio), the continuous time lognormal approach, empirical evidence on option pricing models, estimating volatility, historical versus implied volatility, managing the risks in option positions.</p>
Lecture 15	<p>Continue with <b>Currency and Interest Rate Options</b></p> <p>ASSIGNMENT: Levich Chapter 12, Exercises 5, 6, 7, 8. (Due on TBA)</p>
	<p><b>Mid-term Examination</b></p>
Lectures 16, 17	<p><b>Currency and Interest Rate Swaps</b></p> <p>TOPICS: Origins of the swap market, measuring the size of the market, gross versus net measures of the market, basic cash flow requirements of currency and interest rate swaps, the swap as a collection of forward contracts (another replicating portfolio), risks of swaps, Measuring the risks of swaps, amortization and diffusion effects, price quoting conventions in swaps, pricing interest rate and currency swaps, sources of gains to the users of swaps, risk exposure and capital requirements for swaps dealers and counterparties, netting agreements, BIS capital requirements.</p> <p>ASSIGNMENT: Levich Chapter 13, Exercises 1, 2. (Due on TBA)</p>
Lecture 18	<p><b>Measuring Exposure to International Financial Risks</b></p> <p>TOPICS: Macroeconomic risks and the value of the firm, direct and indirect economic exposures, accounting measures of exposure (translation and transaction exposure), economic measures of exposure (regression and scenario analysis), empirical evidence.</p> <p>ASSIGNMENT: Levich Chapter 16, Exercise 3. (Due on TBA)</p>

Lecture 19 Lecture 20	<p><b>Managing Exposure to International Financial Risks</b></p> <p>TOPICS: Why should the firm hedge? Financial strategies toward risk management, selecting a suitable hedging instrument, picking the right hedge ratio, the Value at Risk (VAR) approach, BIS regulations and the use of in-house VAR measures.</p> <p>ASSIGNMENT: Levich Chapter 16, Questions 4, 5. (Due on TBA)</p> <p><b>International Equity Portfolios</b></p> <p>TOPICS: International portfolio diversification, size and institutional features of global equity markets, international investment vehicles (ADRs, closed-end funds, CBs, WEBS), risk and return in international equity markets, factors leading to over- and under-weighting of home country shares, barriers to international investment, harmonization of issuing and listing standards.</p> <p><b>Topics in International Financial Reporting and Analysis</b></p> <p>TOPICS: Financial disclosure/transparency, incentives for off-balance sheet liabilities, hedge accounting, lease accounting, footnote disclosures, intercorporate equity investments, international financial reporting differences and inflation.</p>
	<b>Final Examination (12:15-3:15 p.m.)</b>