International Financial Management

• Who I am
• Who you are
• This introduction
  – First half
    • syllabus + course outline
    • why we should be here
    • basic finance principles – reminder
  – Second half: Why is International Finance special?

Who I am

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  • Web site vs. Blackboard
• US CFTC disclaimer
Syllabus

- Prerequisites
- Course Objectives
- Materials
- Grading
  - Max[30%MT+25% FE or reverse, 2*20% Cases, 5% CP]
  - Groups for cases
  - “Honor code” for final

Basic Finance Principles

| Time is | Options have |
| Money   | value, always |
| Self Interest | Transaction? |
|         | 2 parties |
| Risk Aversion | Diversification |
|           | Marginal Analysis |
|           | Efficiency |
This Course within Finance

- Finance
  - corporate finance
  - investment & portfolio management
  - market microstructure

- This course’s main themes:
  - What are FX rates? How are currencies traded? (microstructure & investments)
  - Where do FX rates come from? (international economics)
  - Measuring + Hedging exchange rate risks (economics, corporate, banking & investments)
  - International financing & all-in cost of capital (corporate)
  - International diversification (investments; *as time allows*)

Why Should We Be Here?

- Trading in financial assets is huge
  - global FX deriv. turnover: $5.3 trillion USD per day (BIS – 2013)
    - BIS: $4 trn/day (’10), $3.2 trn/day (’07), 1.9trn/day (’04) & 1.21 trn/day (’01)
  - Notional on all OTC derivatives = $691tn in H1-2014 ($710 trillion in H2-’13)
    - After Lehman, down to $582 trn in H1-2010 from $673tn in H1-2008
  - Notional on IR & currency swaps
    - exceeds $494 trillion (as of H1-2014; peak was $494 trn in H2-2013)
  - 94%+ of the world’s top 500 companies use derivatives (ISDA, April 2009)

- Importance of theory
  - Computerization <-> experience vs. new situations
  - know the theory to know its limits

- International Finance is Special