International Financial Management

Who I am

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  • Web site vs. Blackboard
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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?

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 Money
- Options have value, always
- Self Interest
  - Transaction?
  - 2 parties
  - Market Efficiency
- Risk Aversion
  - Diversification
  - Marginal Analysis

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 trillion/day (’10), $5.2 trillion/day (’07), $9 trillion/day (’04) & $12 trillion/day (’01)
  - Notional on all OTC derivatives = $691 trillion in H1-2014 ($573 trillion in H2-13)
    - After Lehman, down to $582 trillion in H1-2010 from $673 trillion in H1-2008
  - Notional on IB & currency swaps: exceed $494 trillion (as of H1-2014; peak was $494 trillion 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