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 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: 34 trn/day (’10), 53.2 trn/day (’07), 39 trn/day (’04) & 22 trn/day (’01)
  • Notional on all OTC derivatives = $691 tn in H1-2014 ($718 tn in H1-13)
    – After Lehman, down to $582 tn in H1-2010 from $678 tn in H1-2008
  • Notional on IR & currency swaps
    – exceeds $494 trillion (as of H1-2014; peak was $494 tn 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