



International Finance

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Course objectives

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1. Introduction to the "International Finance"

- Multinational Corporations, Globalization Process, Financial Crises
- Theory of Comparative Advantages

2. Balance of Payments

- Commercial and Noncommercial Payments
- Structure of Balance of Payments
- Balance of Payments and Exchange Rate

3. Determination of Exchange Rate I

- Exchange Market, Exchange Market Law, Supply and Demand of Foreign Currency, Speculations on the Exchange Market
- Exchange Rate Recording, Cross Rates, Arbitrage

Course objectives

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4. Determination of Exchange Rate II

- Forward Rate, "One price" Law, Power Purchasing Parity (PPP), Exchange Rate Deviation Index (ERDI),
- Inflation Differential, Import Duty, Import Contingents, Import/Export Instruments

5. Fisher Effect, International Fisher Effect, Interest Rate Parity, Interest Rate Differential

6. Theories of Exchange Rate

- Theory of Balance Payments
- Monetary Theory
- Dornbusch Dynamic Rule of Exchange Rate Overshooting
- Theory of Financial Assets
- Portfolio Theory

Course objectives

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7. Future Spot Exchange Rates Forecasting on the Base of their Previous Development

- Fundamental and Technical Analysis

8. Financial Derivatives

- Futures Contracts, Forwards Contracts

9. Financial Derivatives

- Options Contracts, Swaps Contracts

10. International Investments

- Foreign Direct Investment (FDI), International Portfolio Investment
- Return of Individual Foreign Assets
- Risk and Return of Portfolio
- Markowitz Model
- CAPM – Capital Assets Pricing Model
- CML - Capital Market Line, SML- Security Market Line

Course objectives

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11. European Monetary System

- European Monetary Integration: the Single Currency (Euro)
- The European Central Bank

12. International Monetary and Financial Institutions

- International Monetary Fund (IMF)
- World Bank (WB)
- Other Financial Institutions (IBRD, IFC, MIGA, IDA, BIS, EIB)

13. Payment System

- Payment Instruments

Requirements and classification

Evaluation during the semester – **total 100 points:**

- activity and attendance – **max. 10 points,**
- test 1 (for a credit) – **max. 20 points,**
- presentation of a project – **max. 20 points,**
- test 2 (for an exam) – **max. 50 points.**

Evaluative scale

Level of knowledge	Classification			Grade	
Excellent	93-100 %	A	Excellent		1
Above standard	86-92 %	B	Very good		1,5
Average	79-85 %	C	Good		2
Acceptable	72-78 %	D	Satisfactory		2,5
Minimal criteria	64-71 %	E	Sufficient		3
Less than minimal criteria	≤ 63 %	FX	Fail		4

Study Literature

Szovics, P., Tóth. M.: Medzinárodné financie

Nitra: SPU, 2006, 159 s., ISBN 80-8069-685-3

web page:

www.fem.uniag.sk/cvicenia/kf/cierna medzinarodne finacie

Literature

Sun, Ch. S., Resnick, B. G.: International Financial Management.

2nd ed., McGraw-Hill, Singapore, 2002, ISBN 0-07-118114-8

Hull, J. C.: Options, Futures and other Derivatives.

5. edition, Pearson Education, New Jersey 2003, ISBN 0-13-046592-5

Hunt, P. J., Kennedy, J. E.: Financial Derivatives in Theory and Practice.

John Wiley & Sons, LTD, New York, 2000, ISBN 0-471-96717-3

Kolb, R. W.: Futures, Options and Swaps.

Third edition, Blackwell Publisher, Oxford, 1999, ISBN 0-631-21499-2

Useful web links:

- www.wto.org
 - www.worldbank.org
 - www.intracen.org
 - www.ft.com
 - www.economist.com
 - <http://pacific.commerce.ubc.ca/xr/>
 - www.europa.eu.int/
 - www.aci.net/kalliste/euro.htm
 - www.ecb.int/
 - www.imf.org/external/about.htm
 - www.ny.frb.org
 - ...
- **World Trade Organization**
 - **World Bank**
 - **International Trade Center**
 - **Financial Times**
 - **The Economist**
 - **Information on currencies of the world**
 - **European Union**
 - **History of the euro**
 - **European Central Bank**
 - **International Monetary Fund**
 - **Federal Reserve Bank of New York**

Structure of the work (project):

1/2

Front-page (name of the University, Faculty and Departure, name of the topic, name of the author, school year, class, number of the study group)

Contents

Introduction (1/2 – 1 page)

Main work (min. 8 – 10 pages; all borders 2,5 cm; line spacing 1,5; font "Times New Roman"; type size 12; chapter heading "Times New Roman Bold"; quotation (citation) can be numbered directly in the text and under the line exact literary source have to be shown /according to the norm ISO 690/)

Conclusion (1/2 – 1 page)

Structure of the work (project): 2/2

Bibliography (min. 5 book publications, arranged according to the ABC by surname of author, + internet sources)

Every **table, graph and picture** has to be numbered and named and under them have to be the literary source!

Presentations of projects

- ppt format
- maximum 30 minutes
- theme chosen during the first seminar

Topics of the works:

1/2

1. Balance of Payments, its Structure and Evolution in Slovak Republic
2. Exchange Market as a Part of International Financial Markets; Participants and Functions of Exchange Markets
3. Characteristic and Kinds of Spot Transaction; Currency Conversions and Currency Arbitrage
4. Factors which Influence Movements of Exchange Rates – Theory of Interest Rate Parity, Theory of the Balance of Payments
5. Financial Derivatives as Tools of Risks Elimination in Foreign Payment System
6. Forwards Contracts
7. Futures Contracts
8. Swaps Contracts

Topics of the works:

2/2

9. Options Contracts and Options Strategies
10. Creation of Assets Portfolio in Financial Markets; Optimal Portfolio; Profitability and Risk of Portfolio
11. International Monetary and Financial Institutions – International Monetary Fund, the World Bank
12. International Monetary and Financial Institutions – European Bank for Reconstruction and Development and European Investment Bank
13. History of the Economic and Monetary Union, ESCB and ECB
14. Euro as a new Currency of the Slovak Republic and its Influence on Trading and Participants of the Market
15. Risks in International Payment System, their Forms and Tools of Elimination

About the subject...

- „International Finance“ = means more than the finance of only one state,
- „ International Finance“ = means complicated financial relations and processes,
- „ International Finance“ = means good orientation in that financial relations and processes,
- „ International Finance“ = means good use of these knowledge for our own marks and for development of individual state and also for whole world economy.

Definition of „International Finance“

- world financial relations between states, which relates with **production, redistribution, and use** of funds which have above standard character and which are centralized by **international financial institutions** (IMF, IBRD, and etc.), by **institutions of regional character** (EIB, EBRD, by regional developing banks, funds and etc.) and by **institutions of nonfinancial character** (OSN).

What's special about „International“ finance?

- Foreign Exchange Risk
(unfavorable exchange rate movements)
- Political Risk
(Sovereign governments have the right to regulate the movement of goods, capital and people across their borders. These laws sometimes change in unexpected ways.)
- Market Imperfections
(legal restrictions on movement of goods, people and money; transaction costs; shipping costs; tax arbitrage)
- Expanded Opportunity Set

Process of globalization

- ⇒ nowadays there are no states with separated economy of the economies of other states
- ⇒ globalization and liberalization of world economy bring a lot of changes to the world financial markets (There are getting to the huge innovative processes)

Globalization

- world process of connecting supranational economies (These economies are more interdependent on their own relations)
- this process means creation of one common economy
- as a result of that process there are supranational institutions (These institutions influence rules of business)

Outcomes of globalization:

- increasing number of countries with international financial activities (through the global strategies of firms and through the international capital flows)
- creation of supranational financial and bank institutions (There is increasing number of foreign banks)
- increasing of financial capital mobility
- and etc. ...

Multinational corporation (MNC)

- corporations with capital of different nationality
(Shell, Unilever)
- **A firm that has incorporated on one country and has production and sales operations in other countries.**
- There are about 60 000 MNCs in the world
- Many MNCs obtain raw materials from one nation, financial capital from another, produce goods with labor and capital equipment in a third country and sell their in various other national markets.

Top 10 MNC

1.	General Electric	USA
2.	Ford Motor Company	USA
3.	Royal Dutch/Shell Group	Netherlands/UK Netherlands/UK
4.	General Motors	USA
5.	Exxon Corporation	USA
6.	Toyota	Japan
7.	IBM	USA
8.	Volkswagen Group	Germany
9.	Nestlé SA	Switzerland
10.	Daimler-Benz AG	Germany

Thank you for your attention!