DISCIPLINE SPECIFIC ELECTIVE COURSE 4 (DSE-4): INTERNATIONAL FINANCIAL MANAGEMENT

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
International Financial Management (DSE 6)	4	3	1	0	Class XII	None

Learning Objectives

This course aims at inculcating an understanding of:

- Key features of international finance and foreign exchange markets.
- Theories of International finance that link exchange rates with interest rates and inflation rates in different countries.
- Evolution of exchange rate system in the international financial markets.
- Determination of exchange rate, types of foreign exchange risks and risk management strategies.

Learning outcomes

By studying this course, the students will be able to:

- Gain substantive knowledge of International Financial Management.
- Understand the principles of trading in foreign exchange markets, different instruments traded, risks involved and how to carry out hedging of currency risks.
- Learn how to compute forward rates using cross rates, computation of synthetic quotes and apply rules to determine existence of arbitrage amongst currencies traded.
- Understand how the international markets have evolved and the alternate exchange rate systems world has seen over the years

SYLLABUS OF DSE-6

Unit 1: Introduction To Currency Markets (12 hours)

Spot &Forex market: Introduction and Features, Participants, & their method of communication in forex markets, SWIFT and CHIPS. Currency Quotes and types, Calculation of forward rates using spot rates, Discount/Premium on spot rate, Swap Points and Outright Forward Rates, Forward Rate vs. Expected Future spot rates, Spot rate with and without transaction costs, Payoff Profiles on Forward Exchange, Currency futures and

Pay of Profiles, Mark to Market, Cross Rates & Synthetic quotes. Arbitrage: one point, two point and three point (triangular) arbitrage.

Unit 2: Parity Conditions in Currency Markets (12 hours)

Purchasing Power Parity (both absolute and relative versions), Interest Rate Parity (explanation of borrowing and lending criteria, diagrammatic presentation) , covered interest rate parity, International Fischer Effect. The linkages between parity conditions.

Unit 3: Alternate Exchange Rate Systems and Payment Terms (9 hours)

Gold Standard and Gold Exchange Standard System with price adjustment mechanism , EMS and its price adjustment, Hybrid systems , Fixed vs Flexible System, Overview on Brettonwoods System, IMF, SDR, Triffon Paradox & Smithsonian Agreement. Payment Terms and Methods of Financing International Trade (Letter of Credit, Forfaiting, Factoring, Credit Lines)

Unit 4: Exchange Rate Determination and Exposures (12 hours)

Currency Demand and Supply Curves, Stability of exchange rates and 'J' Curve Effect, Factors Affecting Exchange Rate, Foreign Exchange Exposure: Nature, Definition, Exposure Line and Interpretating Exposure, Statistical Measurement of Exposure, Types of Exposure (Meaning): Transaction, Economic and Translation Exposure, Hedging Strategies to Manage Transaction Exposures. Currency Swaps.

Essential/recommended readings

1. Apte, P G., Multinational Financial Management.Tata-McGraw Hill. New Delhi.
2. Levi, Maurice. International Finance. McGraw Hill Inc. New York.
3. Madura, Jeff. International Financial Management.South Western Cengage Learning.
4. Seth, A.K., International Financial Management. Galgotia Publishing Company. New Delhi.
5. Shapiro, Allen C., Multinational Financial Management. Prentice Hall India Pvt Ltd. New Delhi.

Note: Examination scheme and mode shall be as prescribed by the Examination Branch, University of Delhi, from time to time.