

# International Finance - Web course

## COURSE OUTLINE

This Subject is designed to familiarize students with international financial transactions and Operational aspects of foreign exchange markets.

It focuses on forex market participants, exchange rates determination, international arbitrage, foreign exchange risks and its management and international capital market.

It enables students to understand the crux of international financial market.

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## COURSE DETAIL

Session	Detailed Description	Faculty
1	International Financial Environment <ul style="list-style-type: none"> <li>• Global Economy - A Historical Perspective</li> <li>• Financial Globalization- The Missing Link               <ul style="list-style-type: none"> <li>◦ Experiences from India</li> </ul> </li> <li>• Openness of Indian Economy</li> <li>• Indicators of Openness of Indian Economy</li> </ul>	AKM
2	International Financial Transaction <ul style="list-style-type: none"> <li>• International Financial Transactions</li> <li>• Balance of Payments: Meaning &amp; Structure</li> </ul>	AKM
3	Foreign Exchange Market: An Introduction <ul style="list-style-type: none"> <li>• Forex trading volume</li> <li>• Forex trading locations</li> <li>• Details about major traded currencies</li> <li>• Evolution of foreign exchange market and foreign exchange System</li> <li>• Brief introduction to currency systems</li> </ul>	PR



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# NPTEL

<http://nptel.iitm.ac.in>

## Management

### Pre-requisites:

- Financial Management

### Additional Reading:

- Financial Newspapers like "The Economic Times", "Business Standard". Etc.

### Hyperlinks:

- <http://www.bis.org/statistics/index.htm>
- <http://www.rbi.org.in/home.aspx>
- <http://www.fedai.org.in/AboutUs.html>
- <http://www.nseindia.com/marketinfo/fxTracker/fxTracker.jsp>
- <http://exim.indiamart.com/act-regulations/fema-2000-ii.html>
- <http://www.cmegroup.com/?ProductType=cur>
- <http://www.economist.com/markets/bigmac/>

### Coordinators:

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4	<p>Foreign Exchange Market: Market Participants</p> <ul style="list-style-type: none"> <li>• Forex Market participants <ul style="list-style-type: none"> <li>◦ Banks and financial institutions</li> <li>◦ Merchants</li> <li>◦ Other customers</li> <li>◦ Speculators and hedgers</li> <li>◦ Central banks</li> </ul> </li> <li>• Forex Dealers/market makers and brokers</li> <li>• Forex Trading and SWIFT</li> <li>• Robots and forex trading</li> </ul>	PR
5	<p>Introduction to Indian Foreign Exchange Market</p> <ul style="list-style-type: none"> <li>• Forex market in India</li> <li>• Forex market in India: A historical perspective</li> <li>• FERA Vs. FEMA</li> <li>• Pre-liberalization exchange rate regime in India and Hawala market</li> <li>• Brief introduction to currency convertibility in current and capital account.</li> </ul>	PR
6	<p>International Monetary Standard: Gold Standard</p> <ul style="list-style-type: none"> <li>• Gold Standard - A Historical Perspective</li> <li>• The Mint Par Parity Theory</li> <li>• Operational Aspect of Gold Standard</li> </ul>	AKM
7	<p>International Monetary System: Paper Currency Standard, Purchasing Power Parity &amp; Bretton Woods Agreement</p> <ul style="list-style-type: none"> <li>• Paper Currency Standard</li> <li>• Theories of Purchasing Power Parity</li> <li>• International Monetary System- The Bretton Woods System</li> </ul>	AKM
8	<p>Floating Rate, Currency Boards &amp; Currency Basket Systems</p> <ul style="list-style-type: none"> <li>• Brief review on various exchange rate regime</li> <li>• Advantages of free and fixed exchange rate regime</li> <li>• Pros &amp; cons of managed floating exchange rate regime</li> <li>• Prevalence of Currency Boards Regime</li> <li>• Practice of Currency Basket Regime</li> </ul>	AKM
9	<p>Foreign Exchange Contracts: Spot and Forward Contracts</p> <ul style="list-style-type: none"> <li>• Cash, Tom, Spot trading <ul style="list-style-type: none"> <li>◦ Trade Date, settlement</li> </ul> </li> </ul>	PR

	<ul style="list-style-type: none"> <li>date <ul style="list-style-type: none"> <li>◦ Spot trading rollover mechanism.</li> </ul> </li> <li>• Foreign Exchange Forward contracts <ul style="list-style-type: none"> <li>◦ Fixed Maturity Contract</li> <li>◦ Partially Optional Contract</li> <li>◦ Fully Optional Contract</li> <li>◦ Non-Delivery Forward Contracts.</li> </ul> </li> <li>• Foreign Exchange Futures Contract <ul style="list-style-type: none"> <li>◦ Different dimensions of foreign exchange future contract specification trading at National Stock Exchange of India.</li> </ul> </li> </ul>	
10	<p>Foreign Exchange Contracts: Swaps and Options</p> <ul style="list-style-type: none"> <li>• Foreign currency swaps</li> <li>• Foreign currency options <ul style="list-style-type: none"> <li>◦ Long/short call and put options</li> <li>◦ American and European option</li> <li>◦ ATM/OTM/ITM options.</li> </ul> </li> <li>• Exchange traded option contract specifications :A detailed discussion</li> <li>• Zero cost derivatives.</li> </ul>	PR
11	<p>Foreign Exchange Quotations: Spot Market</p> <ul style="list-style-type: none"> <li>• ISO and 3-letter currency code</li> <li>• Foreign exchange quotation types. <ul style="list-style-type: none"> <li>◦ Direct/Indirect</li> <li>◦ American/European</li> <li>◦ Base and variable/term/quote currency</li> <li>◦ Base currency appreciation/depreciation</li> </ul> </li> <li>• RBI Reference Rate</li> </ul>	PR
12	<p>Foreign Exchange Quotations: Bid-Ask Spread</p> <ul style="list-style-type: none"> <li>• Bid-Ask rates (for both interbank and retail market).</li> <li>• Bid-Ask spread in point form and percentage form.</li> <li>• Spot market liquidity and Bid-Ask spread.</li> <li>• Bid-Ask Spread and demand supply of currency</li> <li>• Bid-Ask spread and arbitrage profit.</li> </ul>	PR
13	<p>Foreign Exchange Quotations: Cross Rates, TT Buy/Sell Rates, TC Buy/Sell Rates</p> <ul style="list-style-type: none"> <li>• Cross Rate calculation</li> <li>• Understanding currency appreciation and depreciation</li> </ul>	PR

	<ul style="list-style-type: none"> <li>• Reasons for currency appreciation and depreciation.</li> <li>• Understanding TT Buying /Selling Rates, TC Buying/Selling Rates, and Bill Buying/Selling Rates.</li> </ul>	
14	<p>Exchange Rate Arithmetic: Forward Rates</p> <ul style="list-style-type: none"> <li>• Forex exchange quotation standards.</li> <li>• Pip and its relevance in forex quotations.</li> <li>• Bid-ask spread with two different types of forward quotations <ul style="list-style-type: none"> <li>◦ Outright quotations</li> <li>◦ Point Quotations</li> </ul> </li> <li>• Forward point quotation and rule of “High-Low” &amp; “Low-High”.</li> </ul>	PR
15	<p>Exchange Rate Arithmetic: Forward Rates</p> <ul style="list-style-type: none"> <li>• Broken period forward rates using interpolation method.</li> <li>• Calculation of Premium/Discount on forward rates</li> <li>• Factors affecting forward rates.</li> <li>• Forward swap points.</li> </ul>	PR
16	<p>Exchange Rate Arithmetic: Cross Rates &amp; Triangular Arbitrage</p> <ul style="list-style-type: none"> <li>• Cross rates for both spot and forward quotations</li> <li>• Cross rate with bid-ask spread.</li> <li>• Forward cross rates</li> <li>• Implied cross rates</li> <li>• Cross rates and Triangular Arbitrage</li> <li>• Interest rate arbitrage and how traders exploit this arbitrage opportunity.</li> </ul>	PR
17	<p>Exchange Rate Theories: Purchasing Power Parity Purchasing power parity</p> <ul style="list-style-type: none"> <li>• Absolute purchasing power parity &amp; relative purchasing power parity</li> <li>• Law of One Price( LOOP)</li> <li>• Calculation of CPI (Consumer Price Index) and WPI(Wholesale Price Index) in India.</li> </ul>	PR
18	<p>Exchange Rate Theories: Exchange Rate Pass Troughs</p> <ul style="list-style-type: none"> <li>• Exchange Rate indices <ul style="list-style-type: none"> <li>◦ Nominal Effective Exchange Rate Index ( NEER)</li> <li>◦ Real Effective Exchange</li> </ul> </li> </ul>	PR

	<p>Rate Index (REER)</p> <ul style="list-style-type: none"> <li>• NEER &amp; REER calculation methodology.</li> <li>• Exchange Rate Pass Through</li> </ul>	
19	<p>International Parity Conditions</p> <ul style="list-style-type: none"> <li>• Fischer Effect: Relationship between the Nominal and Real exchange Rate.</li> <li>• International Fisher Effect</li> <li>• Empirical validity of International Fischer Effect.</li> <li>• Interest Rate Parity Theory</li> <li>• Covered Interest Parity</li> </ul>	PR
20	<p>International Parity Conditions (Continued)</p> <ul style="list-style-type: none"> <li>• Uncovered Interest Parity <ul style="list-style-type: none"> <li>◦ Carry Trade and Uncovered Interest rate Parity.</li> </ul> </li> <li>• Empirical Validity of Uncovered Interest Rate Parity:</li> <li>• Real Interest Parity</li> <li>• Forward Rate an unbiased predictor of Future Spot Rate.</li> <li>• International parity conditions and Indian foreign exchange market integration</li> </ul>	PR
21	<p>Foreign Exchange Exposures: Transaction Exposure</p> <ul style="list-style-type: none"> <li>• Brief review on risk and exposures</li> <li>• A detail distinction of various kinds of exposures with examples</li> <li>• A details analysis of transaction exposure and its measurement</li> </ul>	AKM
22	<p>Transaction Exposure Management</p> <ul style="list-style-type: none"> <li>• Forward Market</li> <li>• Cross-Currency Forward contract</li> <li>• Problems of forward contract market</li> </ul>	AKM
23	<p>Transaction Exposure Management (Continued)</p> <ul style="list-style-type: none"> <li>• Foreign Exchange Futures Market</li> <li>• Features of Futures Contracts</li> <li>• Futures Trading Mechanism</li> <li>• Understanding Futures Market Quotes</li> <li>• Currency Futures Contract Specifications of Indian Currency Futures Market</li> <li>• Concept of "Tick" in Futures Contracts</li> <li>• Currency Futures as an Instrument of Hedging</li> <li>• Currency Options</li> </ul>	AKM

24	<p>Interest Rate Swaps</p> <ul style="list-style-type: none"> <li>• Meaning and concept of interest rate swaps</li> <li>• Features of interest rate swaps</li> <li>• Operations of interest rate swaps with examples</li> </ul>	AKM
25	<p>Currency Swaps</p> <ul style="list-style-type: none"> <li>• Features of currency swaps</li> <li>• Operations of currency swaps with examples</li> </ul>	AKM
26	<p>Operating Exposure Measurement</p> <ul style="list-style-type: none"> <li>• Understanding the meaning of operating exposure</li> <li>• Sources of operating exposure</li> <li>• Measurement of operating exposure and difficulties associated with the measurement</li> <li>• Impact of operating exposure on firm's cash flow.</li> </ul>	PR
27	<p>Operating Exposure Management: At Operational Level</p> <ul style="list-style-type: none"> <li>• Understanding the meaning of operating exposure</li> <li>• Impact of operating exposure on firm's cash flow.</li> <li>• Management of operating exposure</li> <li>• At an operation level <ul style="list-style-type: none"> <li>◦ Matching currency cash flows</li> <li>◦ Risk-sharing agreements</li> <li>◦ Back-to-back or parallel loans</li> <li>◦ Re invoicing Centers.</li> <li>◦ Currency swap</li> </ul> </li> </ul>	PR
28	<p>Operating Exposure Management: At Strategic Level</p> <ul style="list-style-type: none"> <li>• Management of operating exposure: Strategic Level <ul style="list-style-type: none"> <li>◦ Diversifying Operational cash flows</li> <li>◦ Diversifying financing cash flows <ul style="list-style-type: none"> <li>▪ Yankee bonds, External Commercial Borrowings (ECBs) and Foreign Currency Convertible bonds (FCCBs) issued by Indian companies.</li> </ul> </li> </ul> </li> <li>• Operating exposure management and shortcomings of forwards, futures and options contracts in managing operating exposure.</li> </ul>	PR

29	<p>Translation/Accounting Exposure: Integral vs. Non-Integral Foreign Operation.</p> <ul style="list-style-type: none"> <li>• Definition of Translation Exposure.</li> <li>• Transaction and Economic Exposure Vs. Translation exposure.</li> <li>• Consolidated Reporting Requirement and Accounting Standards.</li> <li>• Identification/classification of Foreign Operation. <ul style="list-style-type: none"> <li>◦ Integral foreign Operation</li> <li>◦ Non-Integral Foreign Operation</li> </ul> </li> </ul>	PR
30	<p>Translation/Accounting Exposure: Measurement and Management</p> <ul style="list-style-type: none"> <li>• Measurement of Translation Exposure <ul style="list-style-type: none"> <li>◦ Current/Non-current Method.</li> <li>◦ Monetary/Non-Monetary Method</li> <li>◦ Current Rate</li> </ul> </li> <li>• US GAAP, Indian GAAP and Consolidation of Accounts</li> <li>• Management of Translation Exposure <ul style="list-style-type: none"> <li>◦ Balance Sheet Hedge</li> <li>◦ Derivatives Hedge</li> </ul> </li> </ul>	PR
31	<p>International Trade &amp; Risk Associated with International Trade</p> <ul style="list-style-type: none"> <li>• Introduction to different types of trade risk <ul style="list-style-type: none"> <li>◦ Credit risk</li> <li>◦ Carriage Risk</li> <li>◦ Currency Risk</li> <li>◦ Country risk.</li> </ul> </li> <li>• Features of International Trade Document</li> <li>• INCOTERMS associated with export-import pricing</li> <li>• International Chambers of Commerce.</li> </ul>	PR
32	<p>Financing of International Trade</p> <ul style="list-style-type: none"> <li>• International Trade and Documentary Credit</li> <li>• Features of Letters of Credit.</li> <li>• Pre and Post Shipment Export Finance <ul style="list-style-type: none"> <li>◦ Packing Credit</li> <li>◦ Advance against Cheques/Draft received by the exporter as Advance Payments.</li> </ul> </li> <li>• Export Credit Insurance</li> </ul>	PR
33	<p>International Equity Market and Cross Listing of Shares</p>	PR

	<ul style="list-style-type: none"> <li>• Debt and Equity Instruments issued by Indian companies in the international market.</li> <li>• Cross listing of shares through depository receipts</li> <li>• Benefits/costs of depository receipt to issuers and investors</li> <li>• NASDAQ listing fee details</li> <li>• Types of depository receipts <ul style="list-style-type: none"> <li>◦ Sponsored/Unsponsored</li> <li>◦ Level I, Level II, Level III and Private Placement</li> </ul> </li> </ul>	
34	<p>International Equity Market and Indian ADRs and GDRs</p> <ul style="list-style-type: none"> <li>• ADR/GDR scorecard for Indian Companies</li> <li>• Arbitrage between DR and Underlying Shares</li> <li>• Performance of Indian ADRs/GDRs</li> <li>• Instanex Skindia Index</li> <li>• Indian GDR Receipt: Standard Chartered Bank</li> <li>• Cross Listing of Shares and Cost of Capital</li> </ul>	PR
35	<p>International Bond Market: An Introduction</p> <ul style="list-style-type: none"> <li>• History of International Bond Market</li> <li>• Types of International Bonds <ul style="list-style-type: none"> <li>◦ Foreign Bond</li> <li>◦ Eurobond</li> <li>◦ Sovereign Bond</li> </ul> </li> <li>• Variations in Bond Features <ul style="list-style-type: none"> <li>◦ Fixed Coupon</li> <li>◦ Floating Coupon</li> <li>◦ Zero Coupon</li> <li>◦ Convertible Bond</li> <li>◦ Dual Currency Bond</li> </ul> </li> <li>• Floating Rate (LIBOR) calculation methodology</li> </ul>	PR
36	<p>Indian Companies and International Bond Market</p> <ul style="list-style-type: none"> <li>• Foreign Bonds (Yankee Bond, Samurai Bond etc.) and Eurobonds issued by Indian Companies</li> <li>• FCCBs, FRNs issued by Indian Companies.</li> <li>• India Development Bond (IDB)</li> <li>• Resurgent India Bond (RIB)</li> <li>• India Millennium Deposit (IMD) by SBI</li> <li>• Rating of International Bond Offerings</li> <li>• Sovereign Bond/Debts and rating of Sovereign Bonds and Debts</li> </ul>	PR
37	<p>International Perspective of Cost of Capital</p> <ul style="list-style-type: none"> <li>• International CAPM and Cost</li> </ul>	AKM



	of Capital	
38	International Capital Structure <ul style="list-style-type: none"> <li>• Cost of Capital</li> <li>• Cost of Capital in Segmented vs. Integrated Markets</li> <li>• International Capital Asset Pricing</li> </ul>	AKM
39	International Capital Budgeting <ul style="list-style-type: none"> <li>• Net present Value and its drawbacks</li> <li>• Adjusted Net Present Value</li> </ul>	AKM
40	Evaluation of Foreign Direct Investment <ul style="list-style-type: none"> <li>• Financial Integration and segmentation and its impact of capital budgeting</li> <li>• Foreign exchange risk and its impact on capital budgeting</li> <li>• Capital Budgeting for Foreign Direct Investments</li> </ul>	AKM

**References:**

1. International Financial Management by P.G. Apte, TMH Publication, 4th Ed.
2. International Finance Management, Eun & Resnick TMH Publication, 4th Ed.
3. International Finance Management, 2 Jeff Madura, Thomson Publication, 7th Ed.
4. Multinational Business Finance by David K Eiteman, Arthur I Stonehill, Michael H Moffett, Alok Pandey, Pearson Publication, 10th Ed.
5. Multinational Financial Management, by Alan C. Shapiro, Wiley India, 8th Ed.