

**FEDERAL STATE AUTONOMOUS INSTITUTION OF HIGHER EDUCATION
"MOSCOW STATE INSTITUTE OF INTERNATIONAL RELATIONS (UNIVERSITY) OF
THE MINISTRY OF FOREIGN AFFAIRS RUSSIAN FEDERATION".**

**B.A. in Government and International Relations
School of Government and International Relations**

Department of International Finance

**«Approved»
Director of School of Government and International Affairs
Y. Vaslavskiy
« 25 » 12 2017**



The education programme of the course
International Finance

Government and International Relations
(41.03.05: School of Government and International Relations)

The Programme «Government and International Relations»
(code - Б 029)

Qualification - The bachelor

The form of study - full-time education

The course "International Finance" is elaborated in accordance with the MGIMO Educational Standard for the Bachelor's Program in International Affairs (program track "Government and International Affairs").

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Director of the MGIMO library  Marina Reshetnikova

The program is approved by Department of International Finance on

Head of Department  Ass. Prof. V. Milovidov

PART 1:
INSTRUCTOR INFORMATION, COURSE DESCRIPTION
AND TEACHING METHODS

1.1 General information

Template

- Full course title: International Finance
- Type of course: Compulsory
- Level of course B.A.
- Year of study: 3rd
- Number of ECTS credits allocated: 3
- Name of lecturer(s) and office hours:
Vasily Tkachev, PhD
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1.2 Course aims and learning outcomes

The course is designed for undergraduate students of non-finance specializations with little or no previous knowledge of finance to enhance their understanding of the ways the global economy performs from the financial standpoint.

The course consists of four parts. The first part of the course covers basic principles and explains key characteristics of modern finance. Part two focuses on global financial environment to present a comprehensive and comparative perspective of various aspects of international finance development and progress. Special attention is paid to recent regulatory initiatives and policies to combat global financial instability. Part three addresses financial issues facing modern multinational enterprises which tend to shape international economic landscape at ever growing pace. Finally, part four examines major international public finance challenges.

Learning outcomes:

By the end of this course students should be able to:

- outline and discuss the main characteristics of current international financial issues and challenges
- evaluate the evolution of global financial environment and make predictions about possible future developments
- explain the intersection of economics, politics and humanitarian aspects of international finance
- analyze different components of global capital markets
- examine global capital flows and exchange rate movements
- compare and contrast different financial management options available for multinational enterprises in their international expansion and their influence on the global economy
- critically assess the methods and instruments of the management of countries international reserves and sovereign wealth funds
- examine the state of external (foreign) debt of different countries and its sustainability

1.3 Course requirements and grading plan

Course requirements

Students will be required to attend not less than 90% of classes and be prepared for class discussions. Conscientious reading of the assigned materials is compulsory.

Grading plan

- In-class tests – 40 %
 - Students will write three tests during the semester. Dates of test classes are defined by the instructor and communicated to the students at the first class of the respective course.
- In-class issue presentation – 10 %
 - Such a presentation (up to 15 minutes) is performed by each student at least once in the term.
- Written exam – 50 % (in class, 120 minutes).

PART 2. COURSE CONTENT

2.1 Types of work

| Types of work | Academic hours |
|---|----------------|
| Total | 108 |
| Total for lectures, seminars and written exam | 66 |
| Lectures | 32 |
| Seminars | 32 |
| Written tests and/or exam | 2 |
| Homework | 42 |
| Written and oral home assignments | 20 |
| Preparation for lectures, seminars and written exam | 22 |

2.2. Course content

Part I. Finance and Development

Topic 1. Financial Assets and Institutions.

Definition of Financial Assets. Classification of Financial Assets. Monetary Gold and SDRs. Currency and Deposits. Shares and Other Equity. Securities Other Than Shares. Loans. Insurance Technical Reserves. Financial Derivatives. Other Accounts Receivable/Payable. Other Financial Instruments. Money Stock. Broad Money. Money Holders. Money Issuers. The Monetary Base. Liquidity Aggregates. Credit and Debt. Dollarization (Currency substitution). De-dollarization. Financial Institutions. Composition of Financial Corporations Sector. Central bank Other depository corporations. Other financial corporations. Insurance corporations and pension funds. Other financial intermediaries. Financial auxiliaries. Payment System Design and Development.

Topic 2. Financial Systems and Economic Growth.

Financialization: the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies. Financial phenomena and the world economy. Effects of financialization in concert with neo-liberalism and globalization. Distributional implications of financialization and their determinants. Financialization in the context of major world economies. International dimensions of financialization. Policy responses to financialization, including capital controls and securities transaction taxes. Relationship between financial development and economic outcomes. Major schools of thought about importance of finance. Trade-offs between beneficial effects on growth and stability of some financial structures. The need to reconsider the role the structure of financial systems plays in achieving good economic outcomes. Forces to change financial intermediation structures in the period ahead, including crisis intervention measures and an evolving regulatory reform agenda. The changing structures for financial intermediation: through banks or nonbanks, funded by deposits or other sources, interconnected domestically or across borders. Shadow banking.

Topic 3. Access to Finance. Financial Inclusion.

What is financial inclusion and why it is important. Key financial inclusion efforts. Aspects of inclusion in the formal financial system: day-to-day transactions, including sending and receiving money; safeguarding savings, which can help households manage cash flow spikes, smooth consumption and build working capital; financing small businesses or microenterprises, helping owners invest in assets and grow their businesses; planning and paying for recurring expenses, such as school fees; mitigating shocks and managing expenses related to unexpected events such as medical emergencies, a death in the family, theft, or natural disasters; and improving overall welfare. Difference between financial inclusion and access to finance. Lack of access to financial services in the sense that these services have prohibitive costs or that there are barriers to their use, such as regulations requiring onerous paperwork, travel distance, legal hurdles, or other market failures. Voluntary refuse to use financial services despite having access at affordable prices: motives and implications.

Topic 4. Responsible Finance: Financing for Sustainability.

Responsible finance and principles of responsible investing. Making finance more human, affordable and responsible. Responsible Finance Forum: joint platform to support the efforts of participating institutions in the development community. United Nations Environment Programme Finance Initiative (UNEP FI): the growing recognition of the links between finance and Environmental, Social and Governance (ESG) challenges, and the role financial institutions could play for a more sustainable world. UNEP FI coordination of financial institutions participation in the various United Nations and global activities on sustainable finance. Principles for Responsible Investing initiative: an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole.

Part II. Global Financial Environment

Topic 5. The International Monetary System.

History of the International Monetary System. The Gold Standard (1876 – 1913). The Inter-War Years & World War II (1914-1944). Bretton Woods and the International Monetary Fund (IMF) (1944). Eurocurrencies. Fixed Exchange Rates (1945-1973). An Eclectic Currency Arrangement (1973 – Present). The IMF's Exchange Rate Regime Classifications. Fixed Versus Flexible Exchange Rates. Attributes of the "Ideal" Currency. Emerging Markets and Regime Choices. The Euro: Birth of a European Currency. Exchange Rate Regimes: The Future.

Topic 6. The Balance of Payments.

The Balance of Payments (BoP): nature, purpose, functions. Typical BOP Transactions. Fundamentals of BOP Accounting. The Accounts of the BOP. The Current Account. The Capital Account. The Financial Account. Net Errors & Omissions. Official Reserves Accounts. The BOP Interaction with Key Macroeconomic Variables. Capital Mobility. Capital Controls. Capital Flight.

Topic 7. Foreign Exchange Rate Determination and Forecasting.

Three major schools of thought of foreign exchange rate determination and forecasting: the balance of payments approach, international parity conditions, the asset market approach. Forecasting in practice: day-to-day movements, short-term movements from several days to several months (temporarily deviations from the long-term trend), long-term trends. Fundamental equilibrium path. Illustrative cases.

Topic 8. International Capital Markets.

Types of financial assets traded on international capital markets: stocks, bonds (government and corporate), bank deposits denominated in different currencies, forward contracts, futures contracts, swaps, options contracts. Classification of Assets: Debt instruments & Equity instruments. Players in the international capital markets: Commercial banks and other depository institutions, Non bank financial institutions (pension funds, insurance companies, mutual funds, investment banks), Private firms, Central banks and government agencies. Attainable policies with international capital markets. Offshore banking and offshore currency trading. Regulation of capital markets.

Topic 9. Financial Globalization & National Financial Systems.

The nature and extent of financial globalization. Basic facts and figures. The main forces and agents driving the process of financial globalization. The social, political and economic consequences of financial globalisation. Does foreign capital help or hurt growth? Financial globalization and financial crises. Financial markets and the crash of 2008. An economic interpretation. Lessons and implications for national financial systems development and sovereignty.

Topic 10. Global Financial Crises.

Types of financial crises: currency crises, stock market crises, foreign and domestic debt crises, banking crises. Review of theories of financial crises. Causes of financial crises. Identification, dating and frequency of crises. Real and financial implications of crises. Predicting financial crises. Lessons from financial crises.

Topic 11. International Finance Regulation.

Regulation, policies, and politics. The institutional complexities of global financial regulation. Group of 20. Financial Stability Board (FSB). Bank for International Settlements (BIS) and the Basel Committee (BCBS). International Monetary Fund (IMF). International Organization of Securities Commissions (IOSCO). International Accounting Standard Board (IASB). International Association of Insurance Supervisors (IAIS). Capital adequacy, liquidity, and leverage ratios. Basel III Rules. Impacts of regulation on the real economy. Regulating the derivatives market. Rating agencies and auditors. Conflict of interest of central banks roles as lenders of last resort with their regulatory role. Self regulation. Sound corporate governance. Latest initiatives and remaining challenges.

Part III. International Business Finance**Topic 12. International Investments.**

International portfolio theory. International diversification & risk. Portfolio risk reduction through international diversification. Foreign exchange risk. Calculating portfolio risk and return. Comparison of selected correlation coefficients between different stock markets. Foreign direct investment (FDI) theory and practice. Market imperfections: rationale for the FDI. Sustaining & transferring competitive advantage. Determinants of national competitive advantage. Behavioral approach to FDI. International network theory. Modes of FDI. Exporting vs. Production abroad. Licensing/management contracts versus control of assets abroad. Joint ventures versus wholly owned subsidiary. Strategic alliances. Assessing political risk. Firm-specific risks. Investment insurance and guarantees. Country-specific risks.

Topic 13. Cross-Border Mergers and Acquisitions.

Macro- and Microeconomic factors driving cross-border mergers and acquisitions. Gaining access to strategic proprietary assets. Gaining market power and dominance. Achieving synergies in local/global operations and across different industries. Becoming larger, and then reaping the benefits of size in competition and negotiation. Diversifying and spreading risks globally. Exploiting other financial opportunities. Greenfield investments versus acquisitions. The cross-border acquisition process.

Topic 14. Financing International Business.

The relationship between the cost of capital of a company and the possibility of acquiring the capital internationally. The weighted average cost of capital (WACC). Capital Asset Pricing Model (CAPM). Cost of capital and availability of capital for multinational enterprises (MNEs) and domestic firms. Sourcing equity globally. Instruments of cross-border equity financing. American depositary receipts (ADRs). Global depositary receipts (GDRs). The firms' motives to acquire global equity. Barriers for issuing global equity. Alternative instruments: private placements or strategic alliances. Instruments of the international debt markets. Bank loans and syndications: international bank loans, eurocredits, syndicated loans. The Euronote market: Euronotes & Euronote facilities, Euro-commercial paper (ECP), Euro medium-term notes (EMTNs). International bond market: Eurobond, Foreign Bond. Project financing.

Topic 15. International Trade Finance.

The influence of international trade on the supply chain and general value chain of a company. Key elements of an import/export transaction. The documentation sequence for a typical international trade transaction. The three key documents of international trade - the letter of credit, draft, and bill of lading and their role in both financing the transaction and managing its risks. The impact of various stages of trade transaction and their costs on the ability of an exporter to enter a foreign market and potentially compete in both credit terms and pricing. Organizations and resources available for exporters to aid in managing trade risk and financing. Trade finance for importers. The various trade financing alternatives.

Part IV. International Public Finance

Topic 16. External (Foreign) Debt and its Sustainability.

Public and publicly guaranteed debt. Private non-guaranteed debts. External-debt-sustainability analysis. Indicators of external debt sustainability. Debt burden indicators: debt-to-GDP ratio, foreign debt to exports ratio, government debt to current fiscal revenue ratio etc. The structure of the outstanding debt indicators: share of foreign debt, short-term debt, and concessional debt. Debt liquidity monitoring indicators: debt service to GDP ratio, foreign debt service to exports ratio, Government debt service to current fiscal revenue ratio.

Topic 17. International Reserves and Sovereign Wealth Funds.

International reserves purpose and functions. Reserve accumulation theories: signaling or vulnerability indicator, precautionary aspect, exchange rate policy, intergenerational savings. Reserve accumulation Costs. Reserve management objectives, scope, and coordination: their progress and change. Transparency and accountability. Institutional framework. Risk management. Latest issues and challenges. The role of IMF. Nature and purpose of sovereign wealth funds (SWFs). History of SWFs. Size of SWFs. Largest sovereign wealth funds. Latest developments and concerns about SWFs.

2.3. Essay topics/Exam Questions

1. Financial Liberalization and Capital Flows
2. Financial Globalization: Trends and Patterns
3. The Global Financial Marketplace
4. International Financial Management
5. History of the International Monetary System
6. Exchange Rate Regimes
7. A Single Currency for Europe: The Euro
8. Emerging Markets and Regime Choices
9. Balance of Payments Transactions
10. Fundamentals of Balance of Payments
11. The Capital Accounts of Balance of Payments
12. Financial Account of Balance of Payments
13. The Balance of Payments Interaction with Key Macroeconomic Variables
14. Trade Balances and Exchange Rates
15. Capital Mobility
16. Functions of the Foreign Exchange Market
17. Transactions in the Foreign Exchange Market
18. Foreign Exchange Rates and Quotations
19. Exchange Rate Pass-Through
20. Forwards, Futures, Options
21. Prices, Interest Rates, and Exchange Rates in Equilibrium
22. International Portfolio Diversification
23. The Cost of Capital for MNEs Compared to Domestic Firms
24. Optimal Financial Structure for MNEs
25. Raising Equity Globally
26. Depositary Receipts
27. Private Placements
28. Foreign Equity Listing and Issuance
29. Raising Debt Globally
30. Deciding Where to Invest, Sustaining and Transferring Competitive Advantage
31. How to Invest Abroad: Modes of Foreign Involvement
32. Complexities of Budgeting for a Foreign Project
33. Project Versus Parent Valuation
34. Project Financing
35. Financial Crises, Varieties, Definitions, Dating And Sequencing
36. Bubbles and Capital Flows: Theory and Application to Global Imbalances
37. First-Generation Models of Currency and Banking Crises
38. Second Generation and Other Models of Currency and Banking Crises
39. Sovereign Debt Crises: Models and Evidence
40. Models of International Contagion
41. International Reserve Accumulation
42. Global Imbalances in International Trade In Finance
43. Future of the International Financial Architecture
44. IMF and Global Stability
45. Russia in International Finance

2.4. Exam timing

Last week of May.

2.5. Consolidated reading list (in alphabetic order)

Compulsory readings:

1. Eiteman D.K. Multinational business finance / David K. Eiteman, Arthur I. Stonehill, and Michael H. Moffett. - 13th ed., global ed. - Boston [etc.] : Pearson, 2013.
2. Investing in BRIC countries : evaluating risk and governance in Brazil, Russia, India & China / ed. by S. Borodina, O. Shvyrkov, with J.-C. Bouis. - New York [etc.] : McGraw-Hill, 2010.

Additional readings:

1. Allen, Franklin; Ngai, Victor. In What Form Will the Eurozone Emerge from the Crisis? // Journal of Applied Finance, July, 2012
2. Barajas A., Chami R. As a Matter of Finance // Finance & Development. March 2013. Vol. 50. No. 1
3. Barajas A., Chami R., Yousefi R. Differing Benefits // Finance and Development. September 2011.
4. Bech, M. L., Gambacorta, L. and Kharroubi, E. Monetary Policy in a Downturn: Are Financial Crises Special? International Finance, Volume 17, Issue 1 Spring 2014 Pp 99–119
5. Blundell-Wignall A., Roulet C. Infrastructure versus other investments in the global economy and stagnation hypotheses: What do company data tell us? // Financial Market Trends No. 107 Volume 2014/2 Pp. 7-45
6. Blundell-Wignall A. Solving the Financial and Sovereign Debt Crisis in Europe // Financial Market Trends No. 101 Volume 2011/2 Pp. 1-23
7. Blundell-Wignall A., Roulet C. Capital Controls on Inflows, the Global Financial Crisis and Economic Growth: Evidence for Emerging Economies // Financial Market Trends No. 105 Volume 2013/2 Pp. 1-14
8. Blundell-Wignall A., Roulet C. Evaluating capital flow management measures used as macro-prudential tools // Financial Market Trends No. 109 Volume 2015/2 Pp. 7-27
9. Blundell-Wignall A., Roulet C. Problems in the international financial system // Financial Market Trends No. 106 Volume 2014/1 Pp. 1-23
10. Çelik S., Isaksson M. Institutional investors and ownership engagement // Financial Market Trends No. 105 Volume 2013/2 Pp. 93-114
11. Chidambaran, N. K. Corporate Governance: Lessons from the Crisis // Journal of Applied Finance, January, 2011
12. Claessens S., Marchetti J. Global Banking Regroups // Finance & Development. December 2013. Vol. 50. No. 4
13. Della Croce R., Gatti S. Financing infrastructure – International trends // Financial Market Trends No. 106 Volume 2014/1 Pp. 123-138
14. Ebner, A. Capital Inflows to Greece, Spain, Portugal and Ireland: A Sector-Level View. International Finance, Volume 16, Issue 3 Winter 2013 Pp 333–361
15. Estrada, Javier; Vargas, Maria. Black Swans, Beta, Risk, and Return // Journal of Applied Finance, July, 2012
16. Frame, W. Scott; Wall, Larry D.; White, Lawrence J. The Devil's in the Tail: Residential Mortgage Finance and the US Treasury // Journal of Applied Finance, July, 2013
17. Galeza T., Chan J. What Is Direct Investment? // Finance & Development. September 2015. Vol. 52. No. 3

18. Gharleghi, B., Hassan Shaari, A., Shafighi, N. Predicting exchange rates using a novel "cointegration based neuro-fuzzy system" // *International Economics*, Volume 137, May 2014, Pp 88-103
19. Ghosh A. On Center Stage // *Finance & Development*. September 2014
20. Griffiths, Mark D.; Kotomin, Vladimir; Winters, Drew B. A Crisis of Confidence: Understanding Money Markets during the Financial Crisis // *Journal of Applied Finance*, July, 2012
21. Grimaldi M., Hofmeister J., Schich S. and Snethlage D. Estimating the size and incidence of bank resolution costs for selected banks in OECD countries // *Financial Market Trends* No. 110 Volume 2016/1 Pp. 1-36
22. Habib, M. M. and Stracca, L. Is There a Global Safe Haven? *International Finance*, Volume 18, Issue 3 Winter 2015 Pp 263–280
23. Isaksson M., Çelik S. Equity markets, corporate governance and value creation // *Financial Market Trends* No. 104 Volume 2013/1 Pp. 53-84
24. Kaousar Nassr I., Wehinger G. Opportunities and limitations of public equity markets for SMEs // *Financial Market Trends* No. 108 Volume 2015/1. Pp. 49-84
25. Kawai M., Lombardi D. Financial Regionalism // *Finance and Development*. September 2012.
26. Kiff J. Stymied Reform // *Finance & Development*. June 2015
27. Kodres L., Narain A. Fixing the System // *Finance and Development*. June 2012
28. Kokenyne A. Coping with Capital Inflow Surges // *Finance and Development*. September 2010.
29. Krol, R. Economic Policy Uncertainty and Exchange Rate Volatility. *International Finance*, Volume 17, Issue 2 Summer 2014 Pp 241–256
30. Kunieda, T., Okada, K., Shibata, A. Corruption, capital account liberalization, and economic growth: Theory and evidence // *International Economics*, Volume 139, October 2014, Pp 80-108
31. McCauley, R. N. and Schenk, C. R. Reforming the International Monetary System in the 1970s and 2000s: Would a Special Drawing Right Substitution Account Have Worked? *International Finance*, Volume 18, Issue 2 Summer 2015 Pp 187–206
32. Mody, A. and Saravia, D. The Response Speed of the International Monetary Fund. *International Finance*, Volume 16, Issue 2 Summer 2013 Pp 189–211
33. Murphy, Austin. A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers // *Journal of Applied Finance*, January, 2010
34. Nouira, R., Sekkat, K. What determines the extent of real exchange rate misalignment in developing countries? // *International Economics*, Volume 141, May 01, 2015, Pp 135-151
35. Pescatori A., Sandri D., Simon J. No Magic Threshold // *Finance & Development*. June 2014
36. Prasad A. Global Aspirations // *Finance & Development*. 2015
37. Prasad E. Role Reversal // *Finance and Development*. December 2011
38. Prasad E. The Dollar Reigns Supreme, by Default // *Finance & Development*. March 2014
39. Ramskogler P. Tracing the origins of the financial crisis // *Financial Market Trends* No. 107 Volume 2014/ Pp. 47-61 Pp. 47-61
40. Romeu R., Binder A., Zaman A. Prudent or Profligate // *Finance & Development*. June 2013, Vol. 50. No. 2
41. Singh D., LaBrosse J. Developing a framework for effective financial crisis management // *Financial Market Trends* No. 101 Volume 2011/2 Pp. 1-30
42. Surdak C., Agarwal S. The Benevolent Side of Big Data // *Finance & Development*. December 2014

43. Tamak R. The future of the Asian economic and financial community // Financial Market Trends No. 103 Volume 2012/2 Pp. 1-12
44. Vallée, S. From mutual insurance to fiscal federalism: Rebuilding the Economic and Monetary Union after the demise of the Maastricht architecture // International Economics, Volume 138, August 2014, Pp 49-62
45. Wehinger G. The financial industry in the new regulatory landscape // Financial Market Trends No. 101 Volume 2011/2 Pp. 225-249
46. Wu, Y. The Open-Economy Trilemma in China: Monetary and Exchange-Rate Policy Interaction under Financial Repression. International Finance, Volume 18, Issue 1 Spring 2015 Pp 1–24
47. Yoshino N. Global imbalances and the development of capital flows among Asian countries // Financial Market Trends No. 102 Volume 2012/1 Pp. 81-112

PART 3. FINAL REMARKS

- Plagiarism is considered as a severe violation and as an indication of incompetence in the course. Plagiarism is understood as making of one's text using compilation method for other people's publications, even connected with own phrases and sentences. Collective performance of individual tasks is also unacceptable. Proved plagiarism an F-mark is given regardless of the fulfillment of all other requirements.
- Assignments are to be handed in on the due date. Late submissions will translate into the lowering of the grade by 1/3 of a grade for each day of delay.
- Students are asked to keep a copy of all work submitted for evaluation.