

**The MGIMO School of Government and International Affairs**

**INTERNATIONAL FINANCE**

Undergraduate Course Syllabus

Instructor

Ms. Anna Piliposyan

Moscow – 2022

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This syllabus is designed in accordance with the MGIMO Educational Standard for the Bachelor's Program in International Affairs (program track *Government, International Politics and Law*).

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## **Course Description**

Full course title: International Finance

Type of course: Compulsory

Level of course: B.A.

Mode of studies: offline/online

Year of study: 3<sup>rd</sup>

Language: English

ECTS credits: 3

Instructors: Piliposyan Anna

## **Course Syllabus**

Global financialization and integration require a deep understanding of international finance. The main goal of the discipline "International finance" is a comprehensive understanding of the system and regulation of international financial relations. This course focuses on the explanation of traditional and up-to-date theories of international finance and its practical, real-world applications, covers studies of modern approaches to the analysis of global financial markets, international financial institutions, foreign exchange markets and world capital markets.

## **Learning Objectives**

This course is supposed to:

- To demonstrate the controversial issues of international finance through discussions and papers
- To build a theoretical framework of international finance questions
- To develop a practical guide for solving real-world international finance problems
- To develop understanding that there can be more than one view on any financial issue and necessary skills to argue logically with reasoning.

## **Course requirements**

Students will be required to attend not less than 90% of classes and be prepared for class discussions, case solutions and team projects.

## **Course grading plan**

In-class tests – 20%

In-class issue presentation, case solutions, group work – 30%

Written exam – 50%

## **Course contents**

### **1. International Financial System:**

Financial Assets and Institutions, Financial Instruments, De-dollarization, Globalization of financial markets, The nature and extent of financial globalization, Financialization of the world economy and companies, Key players of global financial markets, Capital

market eras, The relation of the real economy and finance, new concept of finance, Functions of a financial market, Classification of international financial markets

### **Required resources:**

1. Baker, H. K., & Riddick, L. A. (2013). *International Finance: A Survey*. Oxford: Oxford University Press., Chapter I.
2. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy*, Global Edition (Vol. Eleventh edition). Boston: Pearson., Chapter 1(p.21-29), Chapter 2 (p. 31-44), Chapter 10 (p. 403-409).
3. Asquith Paul, Weiss Lawrence (2019) *Lessons in Corporate Finance. A Case Studies Approach to Financial Tools, Financial Policies, and Valuation*. Wiley, Chapter 1(p. 2-6).

### **Recommended resources:**

1. *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth*. Michael Jacobs (Editor), Mariana Mazzucato (Editor). Wiley-Blackwell, 2016, part 8, 11.
2. John Kay. *Other People's Money: Masters of the Universe or Servants of the People?* Profile Books Ltd, 2017, Part II Chapter 5 (p. 143-165), Part III Chapter 8, 10-11 (217-240, 270-297)
3. Nicholas Shaxson. *The Finance Curse: How global finance is making us all poorer*. Grove Press, 2018
4. Akgiray, Vedat *Good Finance: Why We Need a New Concept of Finance*. Bristol University Press, 2019, Part II
5. Robert J. Shiller. *Finance and the Good Society*. Princeton University Press, 2012, Chapter 8 (p. 69-74), Chapter 12 (p.94-99), Chapter 16 (p.111-118).

## **2. International Finance Regulation**

The basics of policy making in the area of financial regulation, the ‘why, how & who’., The areas of regulation (the most important policy areas in the field of financial regulation), Government and governmental agencies (policy makers from treasuries, ministries of economy/finance/justice, foreign office, etc.), Central banks (management, legal, regulation and oversight, international affairs, etc.), International organization and EU organs and agencies (policy makers, strategy, legal, international affairs, etc.), Non-governmental organizations and advocacy groups active in the field of international financial markets, The main instruments that regulators use to achieve these policy goals, Banking and financial stability, the Basel bank capital accords, The EU Banking Union; Shadow banking, Structural reforms of financial institutions, Rating agencies.

### **Required resources:**

1. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy*, Global Edition (Vol. Eleventh edition). Boston: Pearson, Chapter 6 (p. 186-188), Chapter 7 (p.222-230), Chapter
2. Baker, H. K., & Riddick, L. A. (2013). *International Finance: A Survey*. Oxford: Oxford University Press., Section II Chapter V, Chapter VIII

### **Recommended resources:**

1. Georges Ugeux, *International Finance Regulation: The Quest for Financial Stability*, Wiley Finance Series, Chapter 1 (p. 2-8), Chapter 4 (p.39-50).
2. tephen Valdez, Philip Molyneux (2015). *An Introduction to Global Financial Markets 8th Edition*, Palgrave Macmillan, Part 2, Chapter 6 (p.120-144).

### **3. The international Monetary System**

International Monetary Systems, The era of bimetallism, Gold standard, Gold exchange standard, Flexible exchange rate regime, Bretton Woods and Monetary Regimes, International Monetary Arrangements, International Monetary Fund, The World bank, Participants – Multilateral Organizations and International Financial Institutions, Current Account Imbalances: The Role of Official Capital Flows, Global Aspects of Central Bank Policies, The Euro.

#### **Required resources:**

1. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy*, Global Edition (Vol. Eleventh edition). Boston: Pearson, Chapter 7(p.240-248), Chapter 8 (p.261-296), Chapter 10 (p. 368-371).
2. Stephen Valdez, Philip Molyneux (2015). *An Introduction to Global Financial Markets 8th Edition*, Palgrave Macmillan, Part 3, Chapter 7 (p.146-191)

#### **Recommended resources:**

1. John Kay, *Other People's Money, The Real Business of Finance*, Published September 22nd 2015 by Public Affairs (first published September 1st 2015), Part III Chapter 9 (p. 240-270)
2. Mohan Rakesh, Michael Debabrata Patra and Muneesh Kapur. 2013 *The International Monetary System: Where Are We and Where Do We Need to Go?* IMF Working Paper WP/13/224
3. Borio Claudio 2014. *The international monetary and financial system: its Achilles heel and what to do about it*. BIS Working Papers No 456
4. Georges Ugeux, *International Finance Regulation: The Quest for Financial Stability*, Wiley Finance Series, Chapter 3-4 (p. 27-50).

### **4. Foreign Exchange Rates**

Understanding global currency markets, Exchange rates regimes, Understanding FX market, Foreign Exchange Risk and Forecasting, Trading in the Foreign Exchange Market, The Major Currency Pairs, International Currency Market Players, Eurobank, Measuring exposure to exchange rate fluctuations, International parity conditions, Measuring exchange rate movements, Factors that influence exchange rates, Foreign exchange rate determination and intervention.

#### **Required resources:**

1. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy*, Global Edition (Vol. Eleventh edition). Boston: Pearson, Chapter 3 (p. 60-71), Chapter 4 (p. 106-116), Chapter 7 (p. 217-233).
2. Stephen Valdez, Philip Molyneux (2015). *An Introduction to Global Financial Markets 8th Edition*, Palgrave Macmillan, Part 5, Chapter 11 (p. 308-334)

#### **Recommended resources:**

1. Backus and Smith (1993), "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods", JIE.
2. Burnside, Eichenbaum and Rebelo (2008), "Carry Trade: The Gains of Diversification", JEEA
3. Burnside and Graveline (2012), "Exchange Rate Determination, Risk Sharing and the Asset Market View", Working Paper.

## 5. The Balance of Payments

Definition, History of Balance of Payments (BOP), the Formula for Balance of Payments, Structure and components, Accounts of the balance of payments, Trade balances and exchange rates, Fundamentals of BOP Accounting, Calculating BOP, Understanding Current Account, Understanding Capital Account, Understanding Financial Account, Imbalances, Countries BOP Analysis, Capital Control, Capital Mobility, Agencies that facilitate international flows, Official Reserves Accounts.

### Required resources:

1. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy*, Global Edition (Vol. Eleventh edition). Boston: Pearson, Part 1, Chapter 2 (p.31-55)
2. Shapiro, A.C. (2019) *Multinational Financial Management*, 11th Edition, Wiley, Part I 5.1-5.4 (p.140-161).

### Recommended resources:

1. International Monetary Fund, *Cataloging in Publication Data, Balance of Payments Textbook* – Washington, DC, USA, 1996, Chapter 1 (p. 1-7), Chapter 3(p.26-36), Chapter 7-8 (p. 88-103).
2. Terra, C. (2015). *Principles of International Finance and Open Economy Macroeconomics: Theories, Applications, and Policies*. London: Academic Press. Retrieved, Chapter 1 part 2.1-2.4

## 6. International Capital Markets

International debt financing (Global sources of funds, characteristics of debt instruments, world's bond market, international bank loans, cost of debt), International equity financing (International stock markets, cross-listing, and depositary receipts, strategic alliances), The international capital market equilibrium (Risk and return of international investments, international diversification, optimal portfolio allocation, international CAPM, integrated versus segmented markets).

### Required resources:

1. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy*, Global Edition (Vol. Eleventh edition). Boston: Pearson, Chapter 7(p.218-221), Chapter 9 (p. 325-337).
2. Stephen Valdez, Philip Molyneux (2015). *An Introduction to Global Financial Markets* 8th Edition, Palgrave Macmillan, Part 3, Chapter 8 (p.194-235)
3. Shapiro, A.C. (2019) *Multinational Financial Management*, 11th Edition, Wiley, Part IV 11.1-12.6 (p. 326-365)

### Recommended resources:

1. Terra, C. (2015). *Principles of International Finance and Open Economy Macroeconomics: Theories, Applications, and Policies*. London: Academic Press. Retrieved, Part II 5.1-5.5, 6.1-6.3.
2. Feldstein and Horioka (1980), "Domestic Savings and International Capital Flows", *The Economic Journal*, p. 331-352
3. De Ferra, S. (2021). "External Imbalances, Gross Capital Flows, and Sovereign Debt Crises," *Journal of the European Economic Association* 19, pp. 347-402.

## 7. Financial Crises

Types of financial crises, The analysis of the nature of different types of crisis, the history of the most severe financial crises, forecasting, consequences of crises, finance regulation, External debt and sustainability.

### **Required resources:**

1. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy, Global Edition* (Vol. Eleventh edition). Boston: Pearson, Chapter 11 (p. 412-420), Chapter 14 (p. 158-163).
2. Stephen Valdez, Philip Molyneux (2015). *An Introduction to Global Financial Markets 8th Edition*, Palgrave Macmillan, Part 4, Chapter 10 (p.264-302).

### **Recommended resources:**

1. Arellano, C. (2008). "Default Risk and Income Fluctuations in Emerging Economies," *American Economic Review* 98, pp. 690-712.
2. Terra, C. (2015). *Principles of International Finance and Open Economy Macroeconomics: Theories, Applications, and Policies*. London: Academic Press. Retrieved, Part IV 9.1-9.4
3. Georges Ugeux, *International Finance Regulation: The Quest for Financial Stability*, Wiley Finance Series, Chapter 3 (p.28-35).

## **8. International Business**

Financial Reporting, Introduction to accounting, Principles of Financial management, New venture creation, Financing International Business, International Trade, International trade analysis, Foreign direct investment decisions and structural choices for foreign market entry, Political risk definition, classification, mitigation, and financial impacts, International Investments, Introduction to investment analysis, Foreign direct investment (FDI), International strategic alliances.

### **Required resources:**

1. Jeff Madura, & Roland Fox. (2020). *International Financial Management*, Edition Cengage Learning, Part I Chapter 1-5.
2. Moffett, M. H., Stonehill, A. I., & Eiteman, D. K. (2016). *Fundamentals of Multinational Finance, Global Edition: Vol. Fifth edition, Global edition*. Pearson, Chapter 1-2 (p. 5-77), Chapter 9-10 (p.223-262).

### **Recommended resources:**

1. Shapiro, A.C. (2019) *Multinational Financial Management*, 11th Edition, Wiley, Part I 1.3-1.4 (p. 24-35), Part V 16.1-17.6 (p.458-500)
2. Stuart Warner, Si Hussain. *The Finance Book: Understand the numbers even if you're not a finance professional*. Financial Times, 2017, Part 1-2.

## **9. Financial Globalization**

Financial globalization: concept, positive and negative effects, Core-periphery dynamics in international finance, Current trends & challenges of cross border capital flows, Financial connections among countries. MGI financial connectedness ranking, Financialization of the current account, Capital flight and illicit financial flows.

### **Required resources:**

1. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). *International Finance: Theory and Policy, Global Edition* (Vol. Eleventh edition). Boston: Pearson, Chapter 9 (p.350-358).
2. Stephen Valdez, Philip Molyneux (2015). *An Introduction to Global Financial Markets 8th Edition*, Palgrave Macmillan, Part 7 Chapter 16 (p. 438-467), Part 8 Chapter 17 (p.470-491).

### **Recommended resources:**

1. Laurent L. Jacque. International Corporate Finance. Chapter 3 “Yesterday and Yesteryear. A Brief History of the International Monetary System”, Part III, Chapter 9 (p.272-300), Chapter 10 (p.308-335)
2. The Economist (2020). Dethroning The Dollar. America’s aggressive use of sanctions endangers the dollar’s reign.
3. Exchange Rate Regimes: Fix or Float? IMF Finance and Development.

### **Exam questions**

1. Functions and roles of the financial system in the global economy.
2. Financialization of the world economy.
3. Financial vs. Non-financial assets in the economy.
4. Types and functions of money in the economy. Money holders and issuers.
5. Company financing sources.
6. Global equity markets.
7. Global debt markets.
8. Global FX market.
9. Types and scope and of international accounts of a country.
10. The Balance of payments (BOP) role and structure.
11. International investment position (IIP) role and structure.
12. Types of payment systems. Credit and debit transfers.
13. Methods of payment in international trade.
14. Concepts of international reserves and foreign currency liquidity.
15. Size, distribution and composition of global foreign currency reserves.
16. The nature and extent of financial globalization
17. Capital flight and illicit financial flows.
18. Goals and tools of the monetary policy.
19. Goals and tools of the fiscal policy.
20. International monetary system overview.
21. The evolution of the global monetary system
22. Contemporary international financial architecture.
23. Financial crises and instability.
24. Proposed and on-going reforms of the international financial architecture.
25. Financial Reporting overview
26. The basics of policy making in the area of financial regulation
27. International financial institutions
28. International Investing
29. International debt financing
30. Foreign direct investment decisions and structural choices for foreign market entry

### **Learning Resources**

#### **Requires resources**

1. Baker, H. K., & Riddick, L. A. (2013). International Finance: A Survey. Oxford: Oxford University Press.



2. Jeff Madura, & Roland Fox. (2020). International Financial Management, Edition Cengage Learning.
3. Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2017). International Finance: Theory and Policy, Global Edition (Vol. Eleventh edition). Boston: Pearson.
4. Moffett, M. H., Stonehill, A. I., & Eiteman, D. K. (2016). Fundamentals of Multinational Finance, Global Edition: Vol. Fifth edition, Global edition. Pearson.
5. Stephen Valdez, Philip Molyneux (2015). An Introduction to Global Financial Markets 8<sup>th</sup> Edition, Palgrave Macmillan.

### **Recommended resources**

1. Arellano, C. (2008). "Default Risk and Income Fluctuations in Emerging Economies," American Economic Review 98, pp. 690-712.
2. Asquith Paul, Weiss Lawrence (2019) Lessons in Corporate Finance. A Case Studies Approach to Financial Tools, Financial Policies, and Valuation. Wiley.
3. Burnside and Graveline (2012), "Exchange Rate Determination, Risk Sharing and the Asset Market View", Working Paper.
4. Backus and Smith (1993), "Consumption and Real Exchange Rates in Dynamic Economies with Non-Traded Goods", JIE.
5. Chen, R., G.-M. Milesi-Ferretti and T. Tressel (2013). "External Imbalances in the Eurozone," Economic Policy 28, pp.101-142.
6. Hal S. Scott, International Finance: Law and Regulation, Hardcover, 686 pages published by Sweet & Maxwell (first published April 1st 2012)
7. Georges Ugeux, International Finance Regulation: The Quest for Financial Stability, Wiley Finance Series
8. De Ferra, S. (2021). "External Imbalances, Gross Capital Flows, and Sovereign Debt Crises," Journal of the European Economic Association 19, pp. 347-402.
9. Engel (2013), "Exchange Rates and Interest Parity", NBER Working Paper 19336
10. Feldstein and Horioka (1980), "Domestic Savings and International Capital Flows", The Economic Journal
11. Fama (1984), "Forward and Spot Exchange Rates", JME
12. Burnside, Eichenbaum and Rebelo (2008), "Carry Trade: The Gains of Diversification", JEEA
13. John Kay, Other People's Money, The Real Business of Finance, Published September 22nd 2015 by Public Affairs (first published September 1st 2015)
14. Jeff Madura, & Roland Fox. (2020). International Financial Management, Edition 5. Cengage Learning.
15. Mohan Rakesh, Michael Debabrata Patra and Muneesh Kapur. 2013 The International Monetary System: Where Are We and Where Do We Need to Go? IMF Working Paper WP/13/224
16. O. Ray Whittington. (2018). Financial Accounting & Reporting. John Wiley & Sons - Wiley CPA excel Course Study Guide
17. Shapiro, A.C. (2019) Multinational Financial Management, 11th Edition, Wiley
18. Stuart Warner, Si Hussain. The Finance Book: Understand the numbers even if you're not a finance professional. Financial Times, 2017.

19. Terra, C. (2015). Principles of International Finance and Open Economy Macroeconomics: Theories, Applications, and Policies. London: Academic Press. Retrieved

### Command words

The table below includes command words used in the assessment for the course. The use of the command word will relate to the subject context.

Command word	Meaning
Analyze	Examine in detail to show meaning, identify elements and the relationship between them
Calculate	Work out from given facts, figures or information
Define	Give precise meaning
Explain	Set out purposes or reasons / make the relationships between things evident / provide why and/or how and support with relevant evidence
Identify	Name/select/recognize
State	express in clear terms
Describe	State the points of a topic / give characteristics and main features

### Academic Integrity

Honesty and integrity are integral components of the academic process. The strength of the University depends on academic and personal integrity. Students are expected to be honest and ethical at all time in their pursuit of academic goals and reminded that they are not supposed to:

- Use someone else's ideas or words without appropriate acknowledgement;
- Submit their work in more than one course without the permission of the instructor;
- Make up sources or facts;
- Obtain or providing unauthorized assistance on any assignment;
- Use or possessing unauthorized aids during tests and exams;
- Look at someone else's answers during an exam or test;
- Falsify institutional documents or grades;
- Falsify or altering any documentation required by the University, including (but not limited to) doctor's notes.