Name of Course Provider	**Khoren Mkhitaryan**	**Academic Year**	**2016-2017**
Office Room		Course Code	
Telephone	**+37499581474**	Credits (ECTS)	
Office Hours	2.00 pm – 3.20 pm	Number of Periods	
E-mail	Prof_Mkhitaryan@yahoo.com	Type of Course	Classroom
Faculty	Business Administration	Programme	Master

Syllabus International Financial Markets

Course Description

This course introduces students to global international financial markets' main concepts. We focus on the common types of International financial markets, such as capital markets with stock and bond markets, mutual funds and exchange-traded funds, then we introduce commodities markets as an integral part of financial markets.
Our study continues on the derivatives markets, such as exchange-traded and over-the counter derivative markets, examining the fundamental issues in motives for using derivatives (hedging, speculation, and arbitrage). Further, we look at the derivative markets and financial crisises, and then talking about different instruments of the money markets, history and evolution of future markets as well, also basics of future trading.
We also focus on the insurance markets, on the history and common types of these markets in the financial world. Discussions will also be on the FOREX tmarket, where we start with the history of gold standard system, the Bretton Woods's system, exchange rate's regimes, and FOREX market's participants.

Course Objectives

- Provide students with a basic knowledge of how international financial markets work.
- Provide students with an understanding of different instruments using in different types of the global financial markets.
- Support student learning through site visits to global financial centers of the world.
- Provide an in-depth understanding of the process and techniques used to make international investment and financial decisions.

Course prerequisites

To apply for this course students require a certain level of background knowledge in international finance and basic understanding of financing.

Textbooks and Other Required Materials

1. Stephen Valdez & Philip Molyneux. An Introduction to Global Financial Markets. Sixth Edition. 2010.
2. Philip Coggan. The Money Machine: How the City Works. 2009
3. Keith Pilbeam. Finance & Financial Markets. Third Edition. 2010
4. Peter Howells, Keith Bain. Financial Markets and Institutions. 2007
5. International Financial Markets: The challenge of globalization. Edited by Leonardo Auernheimer. 2003
6. Global Financial Markets. by Ian H. Giddy, Stern School of Business, New York University. 2014.
7. Richard M. Levich. International Financial Markets. McGraw-Hill Higher Education, 2001.
8. The Regulation of International Financial Markets. Edited by Rainer Grote and Thilo Marauhn. 2006.

Methods of Instruction

The course is developed through a variety of learning techniques: lectures, oral case analysis presentations, video presentations, assignments and presentation of exercises by students in class, tests, examinations, etc. Students are responsible for preparing the reading material and accompanying exercises in advance of the class session, in order to participate in class discussion.

Course Goals

At the end of this course, students are expected to be able to:

- To learn the nature and workings of international financial markets and their use by corporations, investors and other participants of the market.

- To analyze the pricing in the foreign currency and Eurocurrency markets, use of forward exchange for hedging, short-term returns and market efficiency in the international money markets, foreign currency options, international capital asset pricing, pricing of foreign currency bonds, currency swaps, Eurocurrency syndicated loans, foreign currency financing and exposure management..

- Understand and develop skills to conduct research and deliver presentations on topics related to global international financial markets and institutions

- Explain the motivations of investing in different financial products, understand the range of different investor-types, know the 'hot issues' the financial marketplace now faces, identify the major players in the market, define market jargon and demystify financial terminology

- Understand the factors behind currency and international financial crises in developing and developed countries, describe the motivation and the actions of policy-makers.

Attendance Procedure

Attendance, promptness, and participation in all accounting classes are prerequisites to success both in relation to a student's grade and to a student's ultimate success in the business world. Attendance will also be part of your grade, as noted above. In case of 3 or more unexcused absences, the instructor reserves the right to summarily assign you a failing grade for the course or withdraw you from the class.

Note: **Two "lates" equal one absence**.

Methods of Evaluation

The final grade is computed as follows:

- 10% for participation (attendance, exercises, practical sessions, etc.)
- 40% for the semester examination
- 50% for the final examination

Tests may not be made up; a "zero" will be given on a missed test, unless prior arrangements have been made. If a test is missed, the score on the next test will be doubled.

Course Contents:

Part 1. Introduction to global financial markets: 1. Capital Markets.

1.1. Stock Markets. Debt vs. equity. Common and Preferred stocks. Preferred stock vs. common stocks.
1.2. Bond Markets (Bills, Notes, Bonds). Government Bonds, Municipal Bonds, Corporate Bonds, Zero-Coupon Bonds, Convertible and Callable Bonds, Amortized and Adjustment Bonds, Junk and Angel Bonds.
1.3. Mutual Funds. 4 categories of mutual funds: Money market funds, bond or fixed income funds, stock or equity funds, hybrid funds.
1.4. Exchange-Traded Funds.

Part 2. Commodities Markets

2.1. History of commodities exchanges: Ancient Sumerian Trade Contracts, Trading Rice Tickets in Japan during 17th century, Chicago Mercantile Market, Regulators of Commodity Exchange Markets.
2.2. 5 largest commodity exchanges: New York Mercantile Exchange. London Metal Exchange. Chicago Mercantile Exchange. Chicago Board of Trade. Shanghai Metals Exchange.
2.3. Commodity Price Indexes: Goldman Sachs Commodity Index /GSCI/. Dow Jones AIG Commodity Index. Reuters/CRB Index. Rogers Index. Commodity Index Funds.
2.4. The 10 most traded food and beverage commodities in 2014

Part 3. Derivatives Markets

3.1. Introduction to Derivatives and characteristics of derivatives by leverage.
3.2. Financial Leverage (Trading on Equity). Operating Leverage.
3.3. Exchange-traded Derivatives /Korea Exchange, Eurex and CME group/. Over-the counter derivatives.
3.4. Motives for using derivatives (Hedging, Speculation, Arbitrage).
3.5. Participants in a Derivative Market (Hedgers, Speculators, Margin Traders, Arbitrageurs).
3.6. Derivative Markets and Financial Crises: A history of the past 40 years in financial crises:

- LatAm sovereign debt crisis /1982/
- Savings and Loans crisis /1980s/
- Stock Market Crash /1987/
- Junk Bond Crash /1989/
- Tequila crisis /1994/
- Asia Crisis /1997-1998/
- Dotcom Bubble /1999-2000/
- Global Financial Crisis /2007-2008/

3.7. Ponzi Pyramid.

Part 4. Money Markets

1. Money Market Instruments:

- Certificate of Deposits
- Repurchase Agreements
- Commercial Papers
- Eurodollar Deposits
- Federal Agency Short-term Securities
- Federal Funds
- Municipal Notes
- Treasury Bills
- Money Funds
- Foreign Exchange swaps
- Short-lived Mortgage
- Asset-Backed Securities
- Banker's Acceptance.

Part 5. Futures Markets

1. History and evolution of futures markets
2. Basics of Futures Trading
3. Common types of futures contracts (single stock futures, stock index futures, commodity futures, currency futures, interest rate futures).
4. Main types of stock indexes in international financial markets (The Dow Jones Industrial Average, S&P 500, DAX 30, Nikkei 225, Hang Seng Index, NASDAQ 100, Russell 3000 etc).
5. LIBOR

Part 6. Insurance Markets

1. The History of Insurance
2. Common Types of Insurance and Insurance Markets

1.1. Life Insurance
2.2. Personal Accident Insurance
3.3. Medical and Health Insurance
4.4. Vehicle Insurance
5.5. Home Insurance
6.6. Travel Insurance etc.
3. Global Insurance Markets
4. International Insurance Companies

Part 7. Foreign Exchange Markets /FOREX/

1. The History of the FOREX: Gold Standard System
2. Bretton Woods System
3. Exchange Rates and Exchange-Rate Regimes
4. Reserve Currency
5. GATT (General Agreements on Tariffs and Trades)
6. FOREX Market Participants

6.1. Interbank Market participants (commercial banks and securities dealers)
6.2. Governments and Central Banks
6.3. Commercial Companies
6.4. Hedge Funds as Speculators
6.5. Investment management Firms
6.6. Retail Foreign Exchange Traders
6.7. Non-bank foreign exchange companies
6.8. Money Transfer/Remittance Companies and bureaux de change/.

Additional Materials (Gold Markets, International Financial Centers).

Academic Integrity

All students are expected to behave with academic honesty. It is not academically honest to misrepresent another person's work as your own, to take credit for someone else's words or ideas, to accept help on a test or assignment when you are expected to work independently, to obtain advanced information on confidential test materials, or to act in a way that might harm another student's chance for academic success. Please check the ASUE catalog for more information.

Course Continuity Plan

In the case that ASUE officially closes because of an emergency which causes a short-term disruption of this course, we will utilize e-mail to continue this course in the short term (1-3 weeks). All students need to utilize their campus e-mail to receive course-related information.

Cell Phones and Attire

Please turn off cell phones during class.

Attire: It is suggested that, if you wear a hat, you wear it in the usual manner. Please keep hoods down and wear sunglasses outdoors.

Language Spoken in Class

ASUE has **three official and working languages in Armenia.** They are: **Armenian, Russian and English.** However, when the course provider is **a foreigner, a native English speaking person, the students are required** to use **only English** during the lecture in the classroom.

Disclaimer

Information made available on this Syllabus is **subject to modification** without notice.

Yerevan, Armenia 30.08.2016

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E-mail	Prof_Mkhitaryan@yahoo.com	Type of Course	Classroom
Faculty	Business Administration	Programme	Master

Financial Management

Course Description

This is an introductory course in corporate finance. The course has three main objectives: 1) Develop an understanding of the tools that are used to value investment projects and companies (valuation). 2) Understand the basic issues involved in how firms should raise funds for their real investments (financing). 3) Evaluate how investment and financing decisions are related. Emphasis will be placed on appreciating the limitations and challenges that are faced when applying the theoretical framework of corporate finance to real world problems. The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification. The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels: Level 1: Knowledge and comprehension Level 2: Application and analysis Level 3: Synthesis and evaluation Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed. Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student

Course Objectives

- Provide students with a basic knowledge of how financial manager work..
- Provide students with an understanding of different instruments using in different types of the firms.
- Support student learning through site visits to global firms of the world.

- Provide an in-depth understanding of the process and techniques used to make international investment and financial decisions.

Course prerequisites

To apply for this course students require a certain level of background knowledge in financial management and basic understanding of financing.

Textbooks and Other Required Materials

I. Supplementary Text: Applied Corporate Finance: A User's Manual, Second Edition, by Aswath Damodaran.

Other Readings

- *The New Corporate Finance Reader*, edited by Donald H. Chew.
  - This book has a number of readings on topics in corporate finance, which are both readable and informative.
- *Capital Ideas* by Peter Bernstein
  - This book looks back at the development of many of the most important ideas in corporate finance.
- *A Random Walk down Wall Street* by Burt Malkiel
  - This is not a corporate finance book, but it provides a 'skeptic's' view of Wall Street and its ways.
- *Sense and Nonsense in Corporate Finance* by Louis Lowenstein
  - This book contests much that is taken as accepted wisdom in corporate finance. I agree with very little in this book, but it is worth reading for a contrary viewpoint.

Methods of Instruction

The course is developed through a variety of learning techniques: lectures, oral case analysis presentations, video presentations, assignments and presentation of exercises by students in class, tests, examinations, etc. Students are responsible for preparing the reading material and accompanying exercises in advance of the class session, in order to participate in class discussion.

Course Goals

At the end of this course, students are expected to be able to:

- To learn the nature and workings of financial manager and their use by corporations, investors and other participants of the market.

- To give you the capacity to understand the theory and apply, in real world situations, the techniques that has been developed in corporate finance.

Motto for class: If it cannot be applied, who cares?.

- To give you the big picture of corporate finance so that you can understand how things fit together.

Motto for class: You can forget the details, but doní' miss the story.

- To show you that corporate finance is fun.

Attendance Procedure

Attendance, promptness, and participation in all accounting classes are prerequisites to success both in relation to a student's grade and to a student's ultimate success in the business world. Attendance will also be part of your grade, as noted above. In case of 3 or more unexcused absences, the instructor reserves the right to summarily assign you a failing grade for the course or withdraw you from the class.

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Methods of Evaluation

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Course Contents:

A FINANCIAL MANAGEMENT FUNCTION 1. The nature and purpose of financial management a) Explain the nature and purpose of financial management.[1] b) Explain the relationship between financial management and financial and management accounting.[1] 2. Financial objectives and the relationship with corporate strategy a) Discuss the relationship between financial objectives, corporate objectives and corporate strategy.[2] b) Identify and describe a variety of financial objectives, including: [2] i) shareholder wealth maximisation ii) profit maximisation iii) earnings per share growth 3. Stakeholders and impact on corporate objectives a) Identify the range of stakeholders and their objectives [2] b) Discuss the possible conflict between stakeholder objectives [2] c) Discuss the role of management in meeting stakeholder objectives, including the application of agency theory.[2] d) Describe and apply ways of measuring achievement of corporate objectives including: [2] i) ratio analysis, using appropriate ratios such as return on capital employed, return on equity, earnings per share and dividend per share ii) changes in dividends and share prices as part of total shareholder return e) Explain ways to encourage the achievement of stakeholder objectives, including: [2] i) managerial reward schemes such as share options and performance-related pay ii) regulatory requirements such as corporate governance codes of best practice and stock exchange listing regulations 4. Financial and other objectives in not-for-profit organisations a) Discuss the impact of not-for-profit status on financial and other objectives.[2] b) Discuss the nature and importance of Value for Money as an objective in not-for-profit organisations.[2] c) Discuss ways of measuring the achievement of objectives in not-for-profit organisations.[2] B FINANCIAL MANAGEMENT ENVIRONMENT 1. The economic environment for business a) Identify and explain the main macroeconomic policy targets.[1] b) Define and discuss the role of fiscal, monetary, interest rate and exchange rate policies in achieving macroeconomic policy targets.[1] c) Explain how government economic policy interacts with planning and decision-making in business.[2] d) Explain the need for, and the interaction with, planning and decision-making in business of: [1] i) competition policy ii) government assistance for business iii) green policies iv) corporate governance regulation.[2] 2. The nature and role of financial markets and institutions a) Identify the nature and role of money and capital markets, both nationally and internationally.[2] b) Explain the role of financial intermediaries.[1] c) Explain the functions of a stock market and a corporate bond market.[2] d) Explain the nature and features of different securities in relation to the risk/return tradeoff.[2] 3. The nature and role of money market a) Describe the role of the money markets in:[1] i) Providing short-term liquidity to the private sector and the public sector ii) Providing short-term trade finance iii) Allowing an organisation to manage its exposure to foreign currency risk and interest rate risk. b) Explain the role of banks and other financial institutions in the operation of the money markets.[2] c) Explain the characteristics and role of the principal money market instruments:[2] i) Interest-bearing instruments ii) Discount instruments iii) Derivative products. C WORKING CAPITAL MANAGEMENT 1. The nature, elements and importance of working capital a) Describe the nature of working capital and identify its elements.[1] b) Identify the objectives of working capital management in terms of liquidity and profitability, and discuss the conflict between them.[2] c) Discuss the central role of working capital management in financial management.[2] 2. Management of inventories, accounts receivable, accounts payable and cash a) Explain the cash operating cycle and the role of accounts payable and accounts receivable.[2] b) Explain and apply relevant accounting ratios, including: [2] i) current ratio and quick ratio ii) inventory turnover ratio, average collection period and average payable period iii) sales revenue/net working capital ratio c) Discuss, apply and evaluate the use of relevant techniques in managing inventory, including the Economic Order Quantity model and Justin-Time techniques.[2] d)

Discuss, apply and evaluate the use of relevant techniques in managing accounts receivable, including: i) assessing creditworthiness [1] ii) managing accounts receivable [1] iii) collecting amounts owing [1] iv) offering early settlement discounts [2] v) using factoring and invoice discounting [2] vi) managing foreign accounts receivable [2] e) Discuss and apply the use of relevant techniques in managing accounts payable, including: i) using trade credit effectively [1] ii) evaluating the benefits of discounts for early settlement and bulk purchase [2] iii) managing foreign accounts payable [1] f) Explain the various reasons for holding cash, and discuss and apply the use of relevant techniques in managing cash, including:[2] i) preparing cash flow forecasts to determine future cash flows and cash balances ii) assessing the benefits of centralised treasury management and cash control iii) cash management models, such as the Baumol model and the Miller-Orr model iv) investing short-term 3. Determining working capital needs and funding strategies a) Calculate the level of working capital investment in current assets and discuss the key factors determining this level, including:[2] i) the length of the working capital cycle and terms of trade ii) an organisation's policy on the level of investment in current assets iii) the industry in which the organisation operates b) Describe and discuss the key factors in determining working capital funding strategies, including:[2] i) the distinction between permanent and fluctuating current assets © ACCA 2015-2016 All rights reserved. 10 ii) the relative cost and risk of short-term and long-term finance iii) the matching principle iv) the relative costs and benefits of aggressive, conservative and matching funding policies v) management attitudes to risk, previous funding decisions and organisation size [1] D INVESTMENT APPRAISAL 1. Investment appraisal techniques a) Identify and calculate relevant cash flows for investment projects.[2] b) Calculate payback period and discuss the usefulness of payback as an investment appraisal method.[2] c) Calculate discounted payback and discuss its usefulness as an investment appraisal method.[2] d) Calculate return on capital employed (accounting rate of return) and discuss its usefulness as an investment appraisal method.[2] e) Calculate net present value and discuss its usefulness as an investment appraisal method.[2] f) Calculate internal rate of return and discuss its usefulness as an investment appraisal method.[2] g) Discuss the superiority of discounted cash flow (DCF) methods over non-DCF methods.[2] h) Discuss the relative merits of NPV and IRR.[2] 2. Allowing for inflation and taxation in DCF a) Apply and discuss the real-terms and nominalterms approaches to investment appraisal.[2] b) Calculate the taxation effects of relevant cash flows, including the tax benefits of tax allowable depreciation and the tax liabilities of taxable profit.[2] c) Calculate and apply before- and after-tax discount rates.[2] 3. Adjusting for risk and uncertainty in investment appraisal a) Describe and discuss the difference between risk and uncertainty in relation to probabilities and increasing project life.[2] b) Apply sensitivity analysis to investment projects and discuss the usefulness of sensitivity analysis in assisting investment decisions.[2] c) Apply probability analysis to investment projects and discuss the usefulness of probability analysis in assisting investment decisions.[2] d) Apply and discuss other techniques of adjusting for risk and uncertainty in investment appraisal, including: i) simulation [1] ii) adjusted payback [1] iii) risk-adjusted discount rates [2] 4. Specific investment decisions (Lease or buy; asset replacement; capital rationing) a) Evaluate leasing and borrowing to buy using the before-and after-tax costs of debt.[2] b) Evaluate asset replacement decisions using equivalent annual cost and equivalent annual benefit.[2] c) Evaluate investment decisions under singleperiod capital rationing, including:[2] i) the calculation of profitability indexes for divisible investment projects ii) the calculation of the NPV of combinations of non-divisible investment projects iii) a discussion of the reasons for capital rationing E BUSINESS FINANCE 1. Sources of and raising business finance a) Identify and discuss the range of short-term sources of finance available to businesses, including: [2] i) overdraft © ACCA 2015-2016 All rights reserved. 11 ii) short-term loan iii) trade credit iv) lease finance b) Identify and discuss the range of long-term sources of finance available to businesses, including: [2] i) equity finance ii) debt finance iii) lease finance iv) venture capital c) Identify and discuss methods of raising equity finance, including: [2] i) rights issue ii) placing iii) public offer iv) stock exchange listing d) Identify and discuss methods of raising short and long term Islamic finance including[1] i) major difference between Islamic finance and the other forms of business finance. ii) The concept of riba (interest) and how returns are made by Islamic financial securities. iii) Islamic financial instruments available to businesses including i) murabaha (trade credit) ii) ijara (lease finance) iii) mudaraba equity finance) iv) sukuk (debt finance) v) musharaka (venture capital) (note: calculations are not required) e) Identify and discuss internal sources of finance, including:[2] i) retained earnings ii) increasing working capital management efficiency iii) the relationship between dividend policy and the financing decision iv) the theoretical approaches to, and the practical influences on, the dividend decision, including legal constraints, liquidity, shareholding expectations and alternatives to cash dividends 2. Estimating the cost of capital a) Estimate the cost of equity including.[2] i) Application of the dividend growth model and discussion of its weaknesses. ii) Explanation and discussion of systematic and unsystematic risk. iii) Relationship between portfolio theory and the capital asset pricing model (CAPM) iv) Application of the CAPM, its assumptions, advantages and disadvantages its b) Estimating the cost of debt i) irredeemable debt ii) redeemable debt iii) convertible debt iv) preference shares v) bank debt c) Estimating the overall cost of capital including.[2]: i) Distinguishing between average and marginal cost of capital ii) Calculating the weighted average cost of capital (WACC) using book value and market value weightings 3. Sources of finance and their relative costs a) Describe the relative risk-return relationship and the relative costs of equity and debt.[2] b) Describe the creditor hierarchy and its connection with the relative costs of sources of finance.[2] c) Identify and discuss the problem of high levels of gearing [2] d) Assess the impact of sources of finance on financial position, financial risk and shareholder wealth using appropriate measures, including[2]: i) ratio analysis using statement of financial position gearing, operational and financial gearing, interest coverage ratio and other relevant ratios ii) cash flow forecasting iii) leasing or borrowing to buy e) Impact of cost of capital on investments including.[2] i) the relationship between company value and cost of capital. ii) the circumstances under which WACC can be used in investment appraisal © ACCA 2015-2016 All rights reserved. 12 iii) the advantages of the CAPM over WACC in determining a project-specific cost of capital the advantages of the CAPM over WACC in determining a project-specific cost of capital iv) Application of CAPM in calculating a project-specific discount rate. 4. Capital structure theories and practical considerations a) Describe the traditional view of capital structure and its assumptions.[2] b) Describe the views of Miller and Modigliani on capital structure, both without and with corporate taxation, and their assumptions.[2] c) Identify a range of capital market imperfections and describe their impact on the views of Miller and Modigliani on capital structure.[2] d) Explain the relevance of pecking order theory to the selection of sources of finance.[1] 5. Finance for small and medium sized entities (SMEs) a) Describe the financing needs of small businesses.[2] b) Describe the nature of the financing problem for small businesses in terms of the funding gap, the maturity gap and inadequate security.[2] c) Explain measures that may be taken to ease the financing problems of SMEs, including the responses of government departments and financial institutions.[1] d) Identify and evaluate the financial impact of sources of finance for SMEs, including sources already referred to in syllabus section E1 and also [2] i) Business angel financing ii) Government assistance iii) Supply chain financing iv) Crowdfunding / peer-to-peer funding . F BUSINESS VALUATIONS 1. Nature and purpose of the valuation of business and financial assets a) Identify and discuss reasons for valuing businesses and financial assets.[2] b) Identify information requirements for valuation and discuss the limitations of different types of information.[2] 2. Models for the valuation of shares a) Asset-based valuation models, including:[2] i) net book value (statement of financial position) basis. ii) net realisable value basis. iii) net replacement cost basis. b) Income-based valuation models, including:[2] i) price/earnings ratio method. ii) earnings yield method. c) Cash flow-based valuation models, including:[2] i) dividend valuation model and the dividend growth model. ii) discounted cash flow basis. 3. The valuation of debt and other financial assets a) Apply appropriate valuation methods to:[2] i) irredeemable debt ii) redeemable debt iii) convertible debt iv) preference shares 4. Efficient Market Hypothesis (EMH) and practical considerations in the valuation of shares a) Distinguish between and discuss weak form efficiency, semi-strong form efficiency and strong form efficiency [2] b) Discuss practical considerations in the valuation of shares and businesses, including:[2] i) marketability and liquidity of shares ii) availability and sources of information iii) market imperfections and pricing anomalies iv) market capitalisation © ACCA 2015-2016 All rights reserved. 13 c) Describe the significance of investor speculation and the explanations of investor decisions offered by behavioural finance [1] G RISK MANAGEMENT 1. The nature and types of risk and approaches to risk management a) Describe and discuss different types of foreign currency risk:[2] i) translation risk ii) transaction risk iii) economic risk b) Describe and discuss different types of interest rate risk:[1] i) gap exposure ii) basis risk 2. Causes of exchange rate differences and interest rate fluctuations a) Describe the causes of exchange rate fluctuations, including: i) balance of payments [1] ii) purchasing power parity theory [2] iii) interest rate parity theory [2] iv) four-way equivalence [2] b) Forecast exchange rates using:[2] i) purchasing power parity ii) interest rate parity c) Describe the causes of interest rate fluctuations, including: [2] i) structure of interest rates and yield curves ii) expectations theory iii) liquidity preference theory iv) market segmentation 3. Hedging techniques for foreign currency risk a) Discuss and apply traditional and basic methods of foreign currency risk management, including: i) currency of invoice [1] ii) netting and matching [2] iii) leading and lagging [2] iv) forward exchange contracts [2] v) money market hedging [2] vi) asset and liability management [1] b) Compare and evaluate traditional methods of foreign currency risk management.[2] c) Identify the main types of foreign currency derivatives used to hedge foreign currency risk and explain how they are used in hedging.[1] (No numerical questions will be set on this topic) 4. Hedging techniques for interest rate risk a) Discuss and apply traditional and basic methods of interest rate risk management, including: i) matching and smoothing [1] ii) asset and liability management [1] ii) forward rate agreements [2] b) Identify the main types of interest rate derivatives used to hedge interest rate risk and explain how they are used in hedging.[1] (No numerical questions will be set on this topic)

Academic Integrity

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