

**UNIVERSITY OF THE WEST INDIES
DEPARTMENT OF ECONOMICS**

ECON 3007- INTERNATIONAL FINANCE

Semester II 2018/19
Prerequisite- ECON 2002
Lecturer: Marie Freckleton

Description

This course introduces students to international finance.

Learning Outcomes

Upon successful completion of this course, students should be able to:

- Classify transactions in the balance of payments
- Apply national income accounting to demonstrate the interaction of the balance of payments current account deficit and the budget deficit
- Discuss the major economic factors that influence the balance of payments
- Discuss the implications of balance of payments deficits
- Explain the functions of the foreign exchange market
- Compare fixed and flexible exchange rate systems
- Apply purchasing power parity (PPP) theory to determine whether an exchange rate is undervalued or overvalued
- Explain the reasons for deviations from PPP
- Apply the interest parity condition to determine forward exchange rates
- Identify different types of foreign exchange risk exposure
- Discuss the advantages and disadvantages of: foreign exchange forward contracts; foreign currency options and foreign exchange futures
- Determine the appropriate instruments for hedging foreign exchange risk
- Distinguish between portfolio investment and foreign direct investment (FDI)
- Discuss the costs and benefits of portfolio investment
- Apply basic statistical methods to determine the risk of an investment portfolio
- Explain the motivations for FDI
- Discuss the costs and benefits of FDI
- Compare the absorption and monetary approaches to balance of payments adjustment
- Apply balance of payments theories to analyse the effects of economic policies on the balance of payments
- Explain the causes of exchange rate overshooting

- Compare the monetary and portfolio balance approaches to exchange rate determination
- Explain the role of offshore banks
- Apply country risk analysis to determine the credit worthiness of a borrowing nation

Modes of Delivery

Two lecture hours and one tutorial hour per week. Assignments are provided for tutorials.

Assessment

Mid-semester examination-25 percent, Final examination- 75 percent

Syllabus

The Balance of Payments

- The current account
- National saving, investment and the current account
- Transactions classification

Foreign exchange markets

- Spot rates
- Forward rates
- Cross rates
- Arbitrage
- Fixed exchange rate system
- Flexible exchange rate system

Purchasing Power Parity

- Absolute PPP
- Relative PPP
- Deviations from PPP
- Overvalued and undervalued currencies
- Real exchange rates

Interest Parity

- Uncovered interest parity
- Covered interest parity
- Interest rates and inflation
- Exchange rates, interest rates and inflation

Foreign Exchange Risk

- Types of foreign exchange risk
- Managing foreign exchange risk
- Foreign exchange risk premium
- Market efficiency

International Investment

- Portfolio investment
- Foreign direct investment

Theories of the Balance of Payments

- The Elasticities approach
- The Absorption approach
- The Monetary approach

Exchange Rate Theories

- The Monetary approach
- The Portfolio-balance approach
- Exchange rate overshooting
- Currency substitution

International Banking

- Offshore banking
- Country risk analysis

Resources**Prescribed**

Husted, S. and M. Melvin International Economics Pearson/ Addison Wesley

Recommended

Krugman, P. and M. Obstfeld, International Economics .

Bank of Jamaica Annual Reports

Bank of Jamaica Balance of Payments Reports

UNCTAD World Investment Report

[Http://www.boj.org.jm](http://www.boj.org.jm)

[Http://www.imf.org](http://www.imf.org)

