



INTERNATIONAL FINANCE

1ST HALF OF THE CLASS

SPRING SEMESTER, 2010

Professor	John M Griffin,
Office	CBA 6.250, john.griffin@mail.utexas.edu
Office Hours	Mon and Wed 5:00-6:00, Tuesday 12:40-2, Thur. 10:30-11, and stop by if available
Course Web Page	via Blackboard
Teaching Assistants	
Mr. Chao Bian	Office: CBA 5.324D, chao.bian@mail.utexas.edu , Office Ph# 471-1674, Office Hours: T 2-3, Th 3-5pm
Mr. Nick Hirschey	Office 5.334N, Thursday 1:30-2:30, Friday 10-12

Course Objectives

The main objective of this course is to provide students with a framework for making financial decisions in an international context. These decisions could be relevant for, the institutional investors (pension, mutual, hedge fund), individual investors, corporate treasurer, or anyone who seeks to use or understand international investing.

To this aim, relevant features are examined for international diversification, understanding international equity valuation, international equity markets, international factor or quantitative investments, quantitative risk, and the international cost of capital. Many of the issues in the course have both investment and corporate applications though more of the topics will be geared towards an investment audience.

Required Text

Bruno Solnik and Dennis McLeavey, *Global Investments* (6th Edition), ISBN: 0321527704.

Materials

Required

- Various Readings will be made available as Handouts. (If you miss the handouts then make copies from another student).
- Textbooks (readings in required course pack from the following books and articles, you will need to purchase the coursepack for this half of the course). Lecture Notes (will be available on the Web)

Notes: *International Finance Notes and Readings*

Handout notes are meant as an outline to reduce the amount of rote copying of definitions and formulas but certainly not as self-contained lecture summary. Reading the lecture notes without attending class will most likely be of little benefit.

Strongly Recommend:

The Economist, Bloomberg.com, WSJ, Financial Times, or some other Financial News source

Course Requirements and Grading

For ½ the Class (Total= 50%), Cases (22%), Mid-term (22%), and Participation and Pop Quizzes (6%)

You can use the Final Grade to replace your lowest Quiz grades. If you are absent and miss a quiz, plan for this option as it's obviously not fair to give makeup pop quizzes. (i.e. if the Final Test grade is higher than the lowest quiz grade then it will be automatically replaced.)

Cases will be discussed below.

Class Participation

Class contribution consists of positive and constructive comments, questions, remarks, and answers in class. Attendance and arriving on time before the beginning of each class will help contribute to positive class contribution. Effective contribution means participating such that your answer or question moves our analysis and understanding forward. I expect you to come to class on time, fully prepared, and ready to open the discussion. Contribution involves careful analysis of the available quantitative and qualitative evidence presented in the case to develop specific recommendations. *Note that not all comments or questions in class contribute positively to your class contribution grade.* In addition, as with your future employer, your participation includes participating in the class in an **ethical** manner. Any violations of the honor code or inappropriate attitude in class will be met with **0 participation points and a zero on the assignment in question (in addition to other ramifications).**

Exam

The mid-term exam will be comprehensive and will cover material from lectures, class discussions, assigned readings, guest lectures, and cases in the first part of the course. Exams will strive to test the comprehension level, not merely memorization skills.

Description of Requirements

Throughout the course, students will be required to solve a number of case studies in the area of international financial policy by using a combination of techniques acquired in basic finance, statistics and the concepts introduced in this course. Students are expected to have completed introductory finance courses. In addition, proficiency in mathematics and spreadsheet packages is assumed.

Students who are uncertain as to whether they satisfy these requirements should notify the instructor.

Cases

The cases we will use are real-world situations where a decision-maker needs to address or resolve some type of financial problem. Part of the task will be to analyze the problem outlined in the case, and an equally important part will be to make decisions and to develop action implementations. Making decisions and planning actions based on your analysis is hard work, but it can also be fun. Unfortunately, most decisions in this class (and in the real world) will need to be made with incomplete information. Some problems will be clearly stated, others will be more difficult to discern. It is important to remember that the process in arriving at your answers or decisions may be the most important part of the exercise. Intelligent and reasonable people can end up with far-different conclusions depending on their initial assumptions.

In general, the write-ups are to be brief and focused. You will *not* be awarded points for explaining aspects in the case but should focus on the solutions to the problems in the case. All exhibits, such as spreadsheet analysis or figures and tables, should be clearly labeled and referenced, and included in your word or pdf document. The report will be graded on the basis of the quality of the research, as well as of the professional presentation (neatness, clarity of exposition, etc.). The solutions must respond carefully to the course questions and consist of no more than 3-4 double spaced typewritten pages (in 11 or 12pt font, excluding appendices).

All cases will be submitted in hard copy turned in and a copy online (before the deadline) with all answers in the word sheet. The excel file will contain all supporting calculations. Hard printed copies should also be turned in. The two must match exactly or note the reason for the differences. Cases are often screened for plagiarism or similarities. Any material used in the case should be cited appropriately.

Professors and TAs are happy to provide clarifying information regarding the case, but are not there to walk a student through the case. TAs can answer some clarifying and conceptual questions but should not answer detailed questions about how to do specific calculations in the case. Independent thought is necessary. To reward students who start early and to discourage hurried work, emails or calls regarding the case will only be read if they are before 9pm the night before the case is due.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the program's experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students are fully prepared for each class.** Much of the learning takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Course Policy

Fairness to Students: I strive to treat students with dignity and fairness. This does not mean that I will agree with your ideas. If you feel that I have been unfair in any way, please let me know.

Late Assignments: Assignment turned in after the start of Class will **lose 25%** of the grade for each day it is late. After 2 days, an assignment will not be accepted.

Readings: Readings should be done **in advance of the class** in which material will be discussed. The outline below will advise of the relevant topic of discussion. Additional handouts will be done in class. However, if a student misses a class/handout, (whether excused or unexcused) it is their responsibility to obtain the reading from another student, not the instructor or TA.

Grading: There are **no verbal appeals** of grade changes. You should submit a **written** statement explaining the problem within one week of receiving your grade and we will be happy to re-grade any exam or assignment. The entire exam or case will be re-graded and the score may increase, remain the same, or decrease.

Academic Dishonesty

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. Any student engaging in any form of academic dishonesty will be dealt with in the most serious manner. These acts include but are not limited to: lying, cheating, stealing (e.g., answers), multiple submissions, plagiarism (including, improper attribution of sources), unauthorized cooperation, and misrepresentation of facts. Note that it is your responsibility for understanding all attributes of proper conduct. In particular, students should understand exactly how to engage in proper citations, changing sentence structure around is still paraphrasing. If ideas are borrowed from someone and phrased in your own wording, citation is always required. Lack of knowledge is no excuse. **Please carefully read:** http://deanofstudents.utexas.edu/sjs/scholdis_plagiarism.php

and <http://www.yale.edu/bass/writing/sources/plagiarism/what.html>.

The responsibilities for both students and faculty with regard to the Honor System are described on <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and http://deanofstudents.utexas.edu/sjs/acint_student.php. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

Any individual assignment should be completed individually without help from others. Group *preparation* for examinations is acceptable and encouraged.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the [Student Services Building](#). [Information on how to register, downloadable forms](#), including [guidelines for documentation](#), accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via [e-mail](#) if you have any questions.

Course Schedule

On Blackboard and subject to change

Appendix: Excerpts Directly from the University of Texas at Austin Office of the Dean of Students website
(http://deanofstudents.utexas.edu/sjs/acint_student.php)

“The Standard of Academic Integrity

A fundamental principle for any educational institution, academic integrity is highly valued and seriously regarded at The University of Texas at Austin, as emphasized in the standards of conduct. More specifically, you and other students are expected to "maintain absolute integrity and a high standard of individual honor in scholastic work" undertaken at the University ([Sec. 11-801](#), *Institutional Rules on Student Services and Activities*). This is a very basic expectation that is further reinforced by the University's [Honor Code](#). At a minimum, you should complete any assignments, exams, and other scholastic endeavors with the utmost honesty, which requires you to:

- acknowledge the contributions of other sources to your scholastic efforts;
- complete your assignments independently unless expressly authorized to seek or obtain assistance in preparing them;
- follow instructions for assignments and exams, and observe the standards of your academic discipline; and
- avoid engaging in any form of academic dishonesty on behalf of yourself or another student.

For the official policies on academic integrity and scholastic dishonesty, please refer to [Chapter 11](#) of the *Institutional Rules on Student Services and Activities*.

What is Scholastic Dishonesty?

In promoting a high standard of academic integrity, the University broadly defines scholastic dishonesty—basically, all conduct that violates this standard, including *any act designed to give an unfair or undeserved academic advantage*, such as:

- Cheating
- Plagiarism
- Unauthorized Collaboration
- Collusion
- Falsifying Academic Records
- Misrepresenting Facts (e.g., providing false information to postpone an exam, obtain an extended deadline for an assignment, or even gain an unearned financial benefit)
- Any other acts (or attempted acts) that violate the basic standard of academic integrity (e.g., multiple submissions—submitting essentially the same written assignment for two courses without authorization to do so)

Several types of scholastic dishonesty—[unauthorized collaboration](#), [plagiarism](#), and [multiple submissions](#)—are discussed in more detail on this Web site to correct common misperceptions about these particular offenses and suggest ways to avoid committing them.

For the University's official definition of scholastic dishonesty, see [Section 11-802](#), *Institutional Rules on Student Services and Activities*.

Unauthorized Collaboration

If you work with another person on an assignment for credit *without the instructor's permission to do so*, you are engaging in unauthorized collaboration.

- This common form of academic dishonesty can occur with all types of scholastic work—papers, homework, tests (take-home or in-class), lab reports, computer programming projects, or any other assignments to be submitted for credit.
- For the University's official definitions of unauthorized collaboration and the related offense of collusion, see Sections [11-802\(c\)\(6\) & 11-802\(e\)](#), *Institutional Rules on Student Services and Activities*.

Some students mistakenly assume that they can work together on an assignment as long as the instructor has not expressly prohibited collaborative efforts.

- Actually, students are expected to complete assignments independently unless the course instructor indicates otherwise. So working together on assignments is *not* permitted unless the instructor specifically approves of any such collaboration.

Unfortunately, students who engage in unauthorized collaboration tend to justify doing so through various rationalizations. For example, some argue that they contributed to the work, and others maintain that working together on an assignment "helped them learn better."

- The instructor—not the student—determines the purpose of a particular assignment *and* the acceptable method for completing it. Unless working together on an assignment has been specifically authorized, always assume it is not allowed.
- Many educators do value group assignments and other collaborative efforts, recognizing their potential for developing and enhancing specific learning skills. And course requirements in some classes do consist primarily of group assignments. But the expectation of individual work is the prevailing norm in many classes, consistent with the presumption of original work that remains a fundamental tenet of scholarship in the American educational system.

Some students incorrectly assume that the degree of any permissible collaboration is basically the same for all classes.

- The extent of any permissible collaboration can vary widely from one class to the next, even from one project to the next within the same class.
- Be sure to distinguish between collaboration that is authorized for a particular assignment *and* unauthorized collaboration that is undertaken for the sake of expedience or convenience to benefit you *and/or* another student. By failing to make this key distinction, you are much more likely to engage in unauthorized collaboration. To avoid any such outcome, always seek clarification from the instructor.

Unauthorized collaboration can also occur in conjunction with group projects.

- How so? If the degree or type of collaboration exceeds the parameters expressly approved by the instructor. An instructor may allow (or even expect) students to work together on one stage of a group project but require independent work on other phases. Any such distinctions should be strictly observed.

Providing another student unauthorized assistance on an assignment is also a violation, even without the prospect of benefiting yourself.

- If an instructor did not authorize students to work together on a particular assignment *and* you help a student complete that assignment, you are providing unauthorized assistance and, in effect, facilitating an act of academic dishonesty. Equally important, you can be held accountable for doing so.
- For similar reasons, you should not allow another student access to your drafted or completed assignments unless the instructor has permitted those materials to be shared in that manner.

Plagiarism

Plagiarism is another serious violation of academic integrity. In simplest terms, this occurs if you represent as *your own work* any material that was obtained from another source, regardless how or where you acquired it.

- Plagiarism can occur with *all* types of media—scholarly or non-academic, published or unpublished—written publications, Internet sources, oral presentations, illustrations, computer code, scientific data or analyses, music, art, and other forms of expression. (See [Section 11-802\(d\)](#) of the *Institutional Rules on Student Services and Activities* for the University's official definition of plagiarism.)
- Borrowed material from written works can include entire papers, one or more paragraphs, single phrases, or any other excerpts from a variety of sources such as books, journal articles, magazines, downloaded Internet documents, purchased papers from commercial writing services, papers obtained from other students (including homework assignments), etc.
- As a general rule, the use of any borrowed material results in plagiarism if the original source is not properly acknowledged. So you can be held accountable for plagiarizing material in either a final submission of an assignment or a draft that is being submitted to an instructor for review, comments, and/or approval.

Using *verbatim* material (e.g., exact words) without proper attribution (or credit) constitutes the most blatant form of plagiarism. However, other types of material can be plagiarized as well, such as *ideas* drawn from an original source or even its *structure* (e.g., sentence construction or line of argument).

- Improper or insufficient paraphrasing often accounts for this type of plagiarism. (See additional information on [paraphrasing](#).)

Plagiarism can be committed intentionally or unintentionally.

- Strictly speaking, any use of material from another source without proper attribution constitutes plagiarism, regardless why that occurred, and any such conduct violates accepted standards of academic integrity.
- Some students deliberately plagiarize, often rationalizing this misconduct with a variety of excuses: falling behind and succumbing to the pressures of meeting deadlines; feeling overworked and wishing to reduce their workloads; compensating for actual (or perceived) academic or language deficiencies; and/or justifying plagiarism on other grounds.
- But some students commit plagiarism without intending to do so, often stumbling into negligent plagiarism as a result of sloppy notetaking, insufficient paraphrasing, and/or ineffective proofreading. Those problems, however, neither justify nor excuse this breach of academic standards. By misunderstanding the meaning of plagiarism and/or failing to cite sources accurately, you are much more likely to commit this violation. Avoiding that outcome requires, at a minimum, a clear understanding of plagiarism *and* the appropriate techniques for scholarly attribution. (See related information on [paraphrasing](#); [notetaking and proofreading](#); and [acknowledging and citing sources](#).)

By merely changing a few words or rearranging several words or sentences, you are *not* paraphrasing. Making minor revisions to borrowed text amounts to plagiarism.

- Even if properly cited, a "paraphrase" that is too similar to the original source's wording and/or structure is, in fact, plagiarized. (See additional information on [paraphrasing](#).)

Remember, your instructors should be able to clearly identify which materials (e.g., words and ideas) are your own *and* which originated with other sources.

- That cannot be accomplished without proper attribution. You must give credit where it is due, acknowledging the sources of any borrowed passages, ideas, or other types of materials, and enclosing any verbatim excerpts with quotation marks (using block indentation for longer passages).

Plagiarism & Unauthorized Collaboration

[Plagiarism](#) and [unauthorized collaboration](#) are often committed jointly.

By submitting *as your own work* any unattributed material that you obtained from other sources (including the contributions of another student who assisted you in preparing a homework assignment), you have committed plagiarism. And if the instructor did not authorize students to work together on the assignment, you have also engaged in unauthorized collaboration. Both violations contribute to the same fundamental deception—representing material obtained from another source as your own work.

Group efforts that extend beyond the limits approved by an instructor frequently involve plagiarism in addition to unauthorized collaboration. For example, an instructor may allow students to work together while researching a subject, but require each student to write a separate report. If the students collaborate while writing their reports *and* then submit the products of those joint efforts as individual works, they are guilty of unauthorized collaboration as well as plagiarism. In other words, the students collaborated on the written assignment without authorization to do so, and also failed to acknowledge the other students' contributions to their own individual reports.

Multiple Submissions

Submitting the same paper (or other type of assignment) for two courses *without prior approval* represents another form of academic dishonesty.

You may not submit a substantially similar paper or project for credit in two (or more) courses unless expressly authorized to do so by your instructor(s). (See [Section 11-802\(b\)](#) of the *Institutional Rules on Student Services and Activities* for the University's official definition of scholastic dishonesty.)

You may, however, re-work or supplement previous work on a topic with the instructor's approval.

Some students mistakenly assume that they are entitled to submit the same paper (or other assignment) for two (or more) classes simply because they authored the original work.

Unfortunately, students with this viewpoint tend to overlook the relevant ethical and academic issues, focusing instead on their own "authorship" of the original material and personal interest in receiving essentially double credit for a single effort.

Unauthorized multiple submissions are inherently deceptive. After all, an instructor reasonably assumes that any completed assignments being submitted for credit were actually prepared for that course. Mindful of that assumption, students who "recycle" their own papers from one course to another make an effort to convey that impression. For instance, a student may revise the original title page or imply through some other means that he or she wrote the paper for that particular course, sometimes to the extent of discussing a "proposed" paper topic with the instructor or presenting a "draft" of the paper before submitting the "recycled" work for credit.

The issue of plagiarism is also relevant. If, for example, you previously prepared a paper for one course and then submit it for credit in another course without citing the initial work, you are committing plagiarism—essentially "self-plagiarism"—the term used by some institutions. Recall the broad scope of [plagiarism](#): all types of materials can be plagiarized, including unpublished works, even papers you previously wrote.

Another problem concerns the resulting "unfair academic advantage" that is specifically referenced in the University's definition of scholastic dishonesty. If you submit a paper for one course that you prepared and submitted for another class, you are simply better situated to devote more time and energy toward fulfilling other requirements for the subsequent course than would be available to classmates who are completing all course requirements during that semester. In effect, you would be gaining an unfair academic advantage, which constitutes academic dishonesty as it is defined on this campus.

Some students, of course, do recognize one or more of these ethical issues, but still refrain from citing their authorship of prior papers to avoid earning reduced (or zero) credit for the same works in other classes. That underlying motivation further illustrates the deceptive nature of unauthorized multiple submissions.

An additional issue concerns the problematic minimal efforts involved in "recycling" papers (or other prepared assignments). Exerting minimal effort basically undercuts the curricular objectives associated with a particular assignment and the course itself. Likewise, the practice of "recycling" papers subverts important learning goals for individual degree programs and higher education in general, such as the mastery of specific skills that students should acquire and develop in preparing written assignments. This demanding but necessary process is somewhat analogous to the required regimen of athletes, like the numerous laps and other repetitive training exercises that runners must successfully complete to prepare adequately for a marathon."

SCHEDULE

PROFESSOR: JOHN M. GRIFFIN

COURSE SCHEDULE-- *MAY CHANGE, USE THE WEB VERSION NOT A PRINTOUT*

All class handouts are required readings in addition to the posted ones below.

Week	Topic	Additional Readings	Assignments
1) Jan 19	Foreign Exchange	<ul style="list-style-type: none"> • Ch. 1 • Coursepack Readings 	<i>Students often need to spend 8-11 hrs per case so start early</i>
2) Jan 24, 26	PPP, Parity Relations, Carry Trade	<ul style="list-style-type: none"> • Ch. 2 p 36 - 51 • Coursepack • Optional: <ul style="list-style-type: none"> ○ Carry Trade Video, can only access FT once per computer 	Case: Carry Trade, (Done individually, no sharing of any work) due Friday at 4 pm
3) Jan 31, Feb 2	Introduction to International Equity Markets, International Equity Premium, International Diversification	<ul style="list-style-type: none"> • Ch. 5, p. 159-179, Ch. 9 • Coursepack Optional: <ul style="list-style-type: none"> • Background: Understanding Efficient Frontiers • "Anomalies: The Equity Premium Puzzle," JJ Siegel and RH Thaler, 1997 • Correlations: "Long-Term Global Market Correlations", WILLIAM N. GOETZMANN, LINGFENG LI, K. GEERT ROUWENHORST 	Case: Innocents Abroad, (Done individually, no sharing of any work) Due Friday at 4 pm
4) Feb 7, 9	Country-Level Investment, Bubbles, Practical Issues	<ul style="list-style-type: none"> • Ch. 6 p. 217-239, Ch. 5 p. 185-195 • Coursepack 	

Week	Topic	Additional Readings	Assignments
5) Feb 14, 16	Value (Wed)	<ul style="list-style-type: none"> Ch. 4. 118-123, Ch. 6 245-249 Coursepack Optional: <ul style="list-style-type: none"> Fama and K. French, "Value and Growth: The International Evidence", Journal of Finance, December 1998. http://en.wikipedia.org/wiki/Fama-French_three-factor_model http://www.portfoliosolutions.com/f-11.html 	Case: Market-level Investing, (Done individually, will post on blackboard), due Monday at 11am sharp.
6) Feb 21, 23	Discuss DFA on Monday, Momentum on Wednesday	<ul style="list-style-type: none"> For Momentum must prepare for AQR case Coursepack Optional: <ul style="list-style-type: none"> The first 7 pages of "Investor Behavior over the Rise and Fall of Nasdaq" John Griffin, Jeffrey Harris and Selim Topaloglu Nice summary of Bubbles: FED 	Case: DFA Due Monday at 11 am.
7) Feb. 28, Mar 2	Quant Investing, The Dark-side of Global Markets	<ul style="list-style-type: none"> Coursepack Handouts 	Case: Martingale, to be turned in Pass or fail credit. Due Monday at class.
8) Mar 7, 9	Global Outlook	<ul style="list-style-type: none"> Coursepack 	Mid-term, Wed. Mar 9, 6-9PM.

Note: Handouts may be provided to supplement recent events related to the course. If a student misses an in-class handout, it is their responsibility to obtain the reading from another student, *not the instructor or TA.*