

UNDERGRADUATE PROGRAMME IN BACHELOR OF MANAGEMENT STUDIES

PAPER No. 10

INTERNATIONAL TRADE & FINANCE

Learning Objective: This paper will provide the understanding of various aspects of international trade, finance and currency derivatives.

Course Contents:

Unit I

Lectures: 12

International Trade Theories and Introduction to Forex Markets: Absolute advantage, Relative advantage, and H-O theory, Leontief Paradox, Porter's Diamond paradox; Foreign Exchange (Forex) Market, Communication in Forex Markets, Currency Quotes- both in global and domestic market; types of quotations in forex markets, calculation of forward rates using spot rates, calculation of discount/premium on spot rate using spot and forward rates, Spot Rates with and without transaction costs, synthetic quotes.

Unit II

Lectures: 12

Arbitrage: one point, two point and three point arbitrage; Interest rate Parity (explanation of borrowing and lending criteria, diagrammatic presentation) PPP Principle (both absolute and relative versions), International Fischer Effect. The International Monetary System: Bretton Wood system; Exchange Rate Regimes, Euro Market, International Banking, Concept and Development of Universal banking; Syndicate loan; parallel loan. Euro currency market- Euro loan, Euro deposits, American depository receipt, Global depository receipt, Indian depository receipt. International Trade Financing: Letter of Credit (LoC), buyers credit, sellers credit, pre and post shipment line of credit.

Unit III

Lectures: 8

Currency Exposure and its Management: Types of Forex Exposures: Transaction, Translation, and Economic Exposure and their management; Country Risk-Analysis and Management. Multinational payments Management: Leading, Lagging, Pooling and Netting.

Unit IV

Lectures: 12

Financial Derivatives with respect to currency: Forwards and Futures, Interest rate futures and currency futures; Determination of forward and futures prices; Options and related terminology, Calculating the pay-off from options and diagrammatic representation.

Unit V

Lectures: 12

Pricing of Options- Binomial model and Black-Scholes model; trading strategies involving options; Introduction to Swaps, Interest rate swaps, currency swaps, cross currency swaps; Forward rate agreements (FRA). Interest rate caps, floors, collars.

Text Books:

1. Maurice, Levi. *International Finance* (4th ed.). McGraw Hill.
2. Hull, John C. *Options, Futures and Other Derivatives* (7th ed.). Pearson Education

References:

1. Apte, PG. *International Finance*. TMH
2. Madura, Jeff. *International Financial Management*. Cengage Learning
3. Shapiro, Alan C. *Multinational Financial Management* (6th ed.). Wiley publication.