RIGA GRADUATE SCHOOL OF LAW

Course Outline

Course number						
Course title	**International Financial Management**					
Credit points	3 ECTS					
Total hours	24					
Contact hours	18					
Independent studies	6					
Course level	Masters					
Prerequisites	Corporate Finance, Business Mathematics and Statistics					
Category	Mandatory		Restricted elective		Free elective	

COURSE RESPONSIBLE

Name	***Academic degree***	***Academic position***
Dirk Linowski	Prof. Dr. Dr. h.c.	Full professor

COURSE TEACHERS

Name	***Academic degree***	***Academic position***
Dirk Linowski	Prof. Dr. Dr. h.c.	Full professor

COURSE ABSTRACT

We start with the principles of Markowitz theory, i.e. discuss the benefits and limitations of financial risk diversification and prepare the ground for the Value-at-Risk concept which is introduced afterwards.

Using the no arbitrage argument, the complexity of financial markets will be explained, followed by technical means to insure against a “bad” development of the currency exchange rate. The lecture closes with the theory of comparative cost advantages and some conclusions that can be derived for Latvia. We have an emphasis on analysing the risk exposure in the Global and European financial markets with references to banking, insurance, asset management and real estate.

GRADING CRITERIA

Criteria	*Weighting*
Assignment	80%
Participation during the lectures	20%

COURSE REQUIREMENTS

COURSE PLAN – MAIN SUBJECTS

No.	*Main subjects*	*Planned hours*
1	Principles of risk diversification	2
2	Statistical measures. The case of two assets	4
3	From 3 To N assets. Optimization in terms of expected return and risk	3
4	Value at Risk in theory and practice	3
5	Applications with MS-Excel	2
6	The no arbitrage principle: Pricing futures	4
7	Pricing financial options. Toward Black and Scholes	3
8	Fundamentals of Ricardian theory with applications	3

COURSE PLAN – SESSIONS

Session	*Session subjects and readings*	*Lecture/ Seminar*
1	Asset classes and investment optimization problems; diversification, limitations of reducing financial risk. Introduction to the 2 assets case.	L
2	Statistical measures to describe return distributions (expected returns, variances, standard deviations, covariances and correlations).	L
3	From 3 to N assets. The rise of the efficiency line with and without short sales.	L
4	From 3 to N Assets ctd., computational example with MS-Excel.	L/S
5	Risk management and insufficiency of risk steering models. Value-at Risk with computational example from German Dax 1999 – 2000.	L

Session	*Session subjects and readings*	*Lecture/ Seminar*
6	Value at Risk ctd.	L/S
7	Flexible currency rates and currency markets. No arbitrage assumption and interdependence of currency spot exchange rates.	L
8	Interdependence between spot and future rates. Valuation of Financial Futures, hedging currency exposures.	L
9	Introduction to the valuation of financial options.	L
10	Risk mgt. cases in industry, banking, insurance real estate.	L/S
11	Comparative advantages. Ricardian model. Diversification vs. specialization, conclusions.	L
12	Comparative advantages ctd, conclusions.	L/S

COURSE LEARNING OUTCOMES

Knowledge: At the end of the course students will have a basic understanding of constructing well-diversified portfolios as of hedging currency risk and interest rate exposures. The students will understand the mechanics of global financial markets, the basic principles of banking, insurance, asset management and real estate. He or she will understand how to describe financial assets via statistical measures; understanding the benefits and limitations of diversification as the dynamics of currency and commodity markets and the valuation principles of Financial Derivatives.

Skills: To evaluate the efficiency of the interplay of classical portfolio management and hedging strategies.

Competencies: The central focus is on identifying a developing country's industries which can compete on international markets. To enable this, the student will formulate a portfolio manager's optimization problems for applying different quantitative risk concepts in portfolio management. Special attention will be on the tension between specialization and diversification.

By completing the study course and successfully passing examination, the student will be able to:

Learning outcomes	*Evaluation criteria*		
	(40-69%)	*(70-89%)*	*(90-100%)*
Knowledge	The student has acquired only basic knowledge of the course subject. The student lacks understanding of some of the core issues of the course subject.	Overall, the student's knowledge complies with the expectations. However, there are technical specifics that the student does not fully understand.	The student has demonstrated in-depth knowledge and understanding of the issues related to the course subject.

Skills	The student has demonstrated only a basic level of skills.	The student has demonstrated good skills.	The student has demonstrated excellent skills
Competences	The student can apply the knowledge only at a basic level. The student can identify some of the issues but not enough to make a thorough assessment using the models and cannot apply them correctly.	The student can apply the knowledge at a reasonably good level. However, the student does not have the necessary level to be able to fully apply the acquired knowledge independently. The student may struggle with some more abstract models and their application.	The student is able to apply the knowledge independently and correctly. The student can assess and evaluate complex and abstract issues, identify the relevant issues, and correctly apply the right tools to come up with a sound solution.

Please analyse the contribution of defined grading criteria to learning outcomes. Number of grading criteria and learning outcomes should correspond to previously defined one.

Grading criteria	***Learning outcomes***					
	1.	**2.**	**3.**	**4.**	**5.**	**6.**

COURSE LITERATURE

Compulsory literature

No.	***Author, year, title, publisher***
1	Course compendium/own lecture notes
2	Hull: Options, Futures and other Derivatives
3	McDonald: Derivatives Markets

Additional literature and sources

No.	*Author, year, title, publisher*
1	Benninga: Financial Modelling
2	Krugman: International Economics
3	Stonehill, Moffett: Multinational Business Finance
4	Mishkin, F.: The Economics of Money, Banking, and Financial Markets
5	Brealey/Myers: Principles of Corporate Finance