

FINC3011: Finals Notes

Lecture 1/Week 1: Intro

1.0 Admin & Intro

1.0.1 Basics

- Importance of international dimensions of financial management
 - Globalisation of world economy
 - International integration of economies and financial markets
 - IFM – FM of business corporations with international financial flows
- Unique challenges due to international operations
 - Business Corps operation in more than one national boundary
 - Need to deal with many different currencies and ex rate risk
 - Different business environments

Lecture 2/Week 1/2: FX Markets and ER

2.1 Basic features of FX Market

- FX Market: global market where national currencies are bought and sold against one another, ER determined
 - Average daily trading volume/turnover in FX market: 5.1 trillion (vs. AU GDP 1.2 trillion; world GDP 75.2 t, world trade 16.725 t)
 - Over-the-counter (OTC) market – no physical location, international network of informal linkages between key market participants via telephone or electronic, 24hrs a day
 - Trading takes places in handful of key currencies (USD, Euro, Yen, British, Pound) + financial centres with bulk of volume (UK, US, Singapore, Japan)
- FX exchange transaction: agreement between buyer and seller than fixed amount of one currency delivered for some other at specified rate
- Functions of FX market
 - Transfer purchasing power between countries and currencies (due to different currencies)
 - Obtain credit for international trade transactions (financing inventories)
 - Minimise exposure to exchange rate risk (instruments to hedge risk)

2.2 Market participants

- Traditionally consisted of 2 tiers – interbank/wholesale market (multiplies of \$5m/transaction size) and client

2.2.1 Categories within tiers

- Customers
 - Company/individuals to buy/sell FX to finance foreign trade and international investment operations (im/exporter, tourist, immigrant, investor)
 - Price takers (buy/sell at price determined by market makers)
- Bank and non-bank FX dealers
 - Large commercial bank, market-makers in FX market (price makers)
 - Provide liquidity by quoting two-way prices (buy and sell currency) – engage in arbitrage and speculation
 - Deal with retail and wholesale (interbank) markets
- Speculators and arbitrageurs
 - Profit from trading market, not serving client or ensuring continuous market, on behalf of major banks
 - Anticipated ER changes (S) vs. simultaneous difference in ER across markets (A)
- FX Brokers
 - Agents who facilitate trading between FX dealers w/o themselves becoming principals in transaction
 - Bring buyers and sellers together