

SEMESTER-VIII

COURSE 21: INTERNATIONAL FINANCIAL SYSTEM

Theory

Credits: 4

4 hrs/week

Course objective: To enlighten the student with the concept of international trade, balance of payments and foreign exchange markets.

Learning Outcomes:

- To understand the terms and theories of international trade
- To ensure the knowledge about balance of payments, importance also accounting principles in BOP
- To learn about foreign exchange markets, understanding SPOT and forward rates
- To gain knowledge about exchange rate discrimination
- To understand various instruments like Euro currencies etc.,

Syllabus:

Unit 1: Introduction:

International trade- its importance – theories of international trade –theory comparative costs – classical theory, absolute advantage, Hecksher – Ohlin Theory, Free trade v/s Protection Barriers to Foreign trade, Tariff and Non Tariff Barriers.

Unit 2: Balance of payment:

Meaning of BOP, Components of BOP – Importance of BOP – Meaning of Deficit and surplus – equilibrium – disequilibrium and adjustments – methods of correcting disequilibrium – accounting principles in BOP.

Unit 3: Foreign Exchange Markets:

Define Foreign exchange markets – its structure – settlement system –exchange rate – Participants, understanding SPOT and forward rates, foreign exchange quotations- Premium and discount in forward market- cross rates- inverse rates and arbitrage.

Unit 4: Exchange rate discrimination:

Determination under gold standard and paper standard- factors affecting exchange rates – purchasing power parity theory- demand and supply theory- equilibrium rate of exchange – fluctuating v/s. fixed exchange rates, exchange control- exchange control- objectives of exchange control.

Unit 5: Instruments:

ADR- GDR- Euro currencies- International commercial papers. International Financial institutions – Introduction to IMF – Importance –Functions and significance.

Practical Components

- Students should learn the concept of International trade and their theories
- Analyse the foreign exchange markets who are the participants and understanding of SPOT and forward rates by observing stock exchange sites.
- Students should form into teams and prepare presentations on the topics in the syllabus and provide them as assignments or seminars
- All the students should make collect information regarding the companies in ADR, Euro currencies through search engines.
- Students should analyse the overview of fluctuating and fixed exchange rates.

Reference Books

1. International Economics: Theory and Policy, Paul Krugman
2. The Economics of Exchange Rates, Lucio Sarno, Mark P. Taylor
3. International Finance, G.Shailaja, Universities Press
4. International Finance, Maurice D. Levi, Routledge Taylor & Francis Group