Faculty of World Economy and International Affairs

School of World Economy

Program:

International Currency and Financial Relationships

(taught in English)

MOSCOW 2018
1. Course Description

Course Title: ‘International Currency and Financial Relationships’

Course Overview:
This is an intermediate mandatory course that brings together topics in international economics, international economic relations, and macro- and microeconomics. It aims at holistic understanding of the concept, scope, core elements, principles, aspects, modalities, idiosyncrasies, framework, and outstanding issues of international currency and financial relationships (ICFR) amid the contemporary world economic order and specifics of the post-crisis recovery. The course also looks at dynamics, perspectives, and implication of ICFR in shaping the national economic systems, designing the international financial markets, and structuring the global economic environment.

Course Objectives:
This Course sets sight on developing the undergraduate students’ analytical skills on various foci of the ICFR agenda, including ICFR’s role in the processes of financial globalization, regionalization, and ‘glocalization’, as well as on unraveling the most complex and sensitive areas of ICFR aspects and mechanism. It delves into the specifics of macrofinance policy conduct and how it is tailored and managed amid imperfection and asymmetries of international financial markets. This Course equips students with broad-based outlook covering functional specifics of international finance and credit, international financial institutions/organizations, international capital flow, and ICFR weaknesses and risks, as well as expands students’ awareness of the latest developments in the global finance and amplifies their ability to systematize the most significant events and issues associated with ICFR.

Upon the successful completion of this Course, students will:

- Know the basics, concept, dynamics, perspectives, and outstanding issues of ICFR amid the processes of financial globalization, regionalization, ‘glocalization’, and specifics of the post-crisis recovery;
- Understand core principles, scope, modalities, and specifics of ICFR organization and mechanism and how ICFR are associated with rapidly changing macro-level parameters and changing priorities of macrofinance management;
- Comprehend the specifics of national and regional/supranational monetary systems, policy, and regulation;
- Discover the monetary and international credit markets instruments that secure continuum of financial markets performance;
- Benefit from understanding of the core principles and structure of balance of payments, the components of its accounts, how it is prepared, how to interpret it, how to overcome imbalances, and what are the balancing mechanisms;
- Recognize types and forms of the international trade finance instruments and follow the mechanism of their governance by the (uniform) rules of the International Chamber of Commerce;
- Distinguish the ICFR institutional framework by core functions and responsibilities of the international financial institutions and national central banks;
• Delve into international monetary, credit, and securities markets, their post-crisis architecture and archetypes, and make out whether the extent of their segmentation is a source of systemic risks and whether this is critical for crisis developments and crisis management;
• Possess skills in systematization of the ICFR-related macro- and micro-level risks amid asymmetries of international financial markets and uncertainties of the world economy;
• Explore knowledge about Russia’s involvement in the ICFR processes and make sense about the perspectives of being an active ICFR actor should the adverse externalities continue to affect the national economic environment;
• Be able to confidently trace and identify the latest ICFR developments that most accurately associate with the integrity of the economic systems;
• Be comfortable in arguing, substantiating, and advocating the most disputable and challenging ICFR areas and issues, in promoting new vision, stance, and ideas in the ICFR field, including those that contribute to the effective and efficient managerial decision making;
• Acquire and expand expertise necessary for critical assessment and bringing together opinions, conclusions, and findings upon the research in the ICFR area and be good at working with academic publications, statistics, and other sources of information in ICFR, including international financial markets and financial institutions;
• Be savvy with the tools and techniques of multivariate analysis of the contemporary economic and institutional specifics of ICFR and their effect on international financial markets dynamics.

Additionally, upon the successful completion of this Course students will be able to apply their knowledge to further education at the Master degree programs mostly with the focus on international economics and finance.

Prerequisites: Students must have completed courses in Macroeconomics, Microeconomics, International Economic Relations, and must have fluent English.

Materials: Lecture notes are documented as a presentation in the PowerPoint format and are sent weekly to the Class by e-mail. Further reading can be found here below and is mainly based on a selection of textbooks, academic and analytical articles, and recommended websites. Apart from lecture notes and recommended reading, students are strongly encouraged to view/read other materials from the recognized open access sources (McKinsey, BCG, Big 4 international audit companies, Big 3 global rating agencies, Bloomberg, Financial Times, Wall Street Journal, English language Russian editions, and others) so that to be aware of current events in the world economy and finance.

2. Course Schedule

<table>
<thead>
<tr>
<th></th>
<th>Topic</th>
<th>Total hours</th>
<th>Contact hours:</th>
<th>Independent work</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Lectures</td>
<td>Seminars</td>
</tr>
<tr>
<td>1.</td>
<td>World economy, and international currency and financial relationships</td>
<td>8</td>
<td>2</td>
<td>2</td>
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<tr>
<td>2.</td>
<td>International monetary system, policy, and regulation</td>
<td>20</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Balance of payments</td>
<td>14</td>
<td>4</td>
<td>2</td>
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</tbody>
</table>
4. International trade finance 10 4 2 6
5. International credit 16 4 4 8
6. International foreign exchange, credit, and securities markets 16 4 2 8
7. Risks in international currency and financial relationships 8 4 2 4
8. Institutional structure of international currency and financial relationships 10 6 2 4
9. International currency and financial relationships of Russia 8 4 2 4
TOTAL: 114 36 20 62

**Topic 1. World economy, and international currency and financial relationships**

Financial globalization, regionalization, and ‘glocalization’ as driving forces of the world economic development. Framework and specifics of international currency and financial relationships (ICFR) in the contemporary world financial order. Core principles of ICFR. ICFR fundamentals. Primary drivers of the ICFR transformation. ICFR and global financial crisis. ICFR and the post-crisis recovery.

**Reading list:**

*Required:*

*Further reading:*

**Topic 2. International monetary system, policy, and regulation**


**Reading list:**

*Required:*


*Further reading:*
**Topic 3. Balance of payments**


**Reading list:**

*Required:*

*Further reading:*
1. Balance of payments reports by central/national/reserve banks.
4. European Union (2017) Quality report on balance of payments (BOP), international trade in services (ITS) and foreign direct investments statistics (FDI).
7. IMF Committee on balance of payment statistics. 2017 Annual report.

**Topic 4. International trade finance**

**Reading list:**

**Required:**

**Further reading:**
10. Uniform Customs and Practice for Documentary Credits (ICC Publication UCP 600).
15. Uniform Rules for Demand Guarantees (ICC Publication URDG 758).

**Internet resources:**
2. [https://iccwbo.org](https://iccwbo.org) (ICC – International Chamber of Commerce)
3. [https://www.swift.com](https://www.swift.com) (SWIFT – Society for Worldwide Interbank Financial Telecommunication)
4. [https://www.asianclearingunion.org](https://www.asianclearingunion.org) (ACU – Asian Clearing Union)
**Topic 5. International credit**

Principles of international credit. International credit operations mechanism. Forms and types of international credit. International project finance. Leasing. Factoring. Forfeiting. Financial and payment terms of international credit. Collateral on international credit. Regulation of international credit relationships.

**Reading list:**

*Required:*


*Further reading:*


**Topic 6. International foreign exchange, credit, and securities markets**

**Reading list:**

**Required:**


**Further reading:**


**Topic 7. Risks in international currency and financial relationships**

Macro- and micro-level risks in ICFR. Types of risks, mechanism and instruments of their minimization. Protective clauses in the ICFR system. Forex risk and credit risk insurance. Risk hedging. Information technology and international information systems as a tool of cost optimization in the ICFR system.

**Reading list:**

*Required:*

Further reading:

**Topic 8. Institutional structure of international currency and financial relationships**


**Reading list:**

*Required:*


*Further reading:*


**Internet resources:**

3. [https://www.bis.org/](https://www.bis.org/) (Bank for International Settlements)
17. https://www.kfw.de/kfw.de-2.html (Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute))

**Topic 9. International currency and financial relationships of Russia**

Russia in the ICFR system. Balance of payment of the Russian Federation. Monetary policy and monetary system of Russia. Russia as an international borrower and international lender. Participation of Russia in the international financial organizations. Specifics of financial interplay between Russia and other members of the Eurasian Economic Union (EAEU).

**Reading list:**

*Required:* None. Lecture notes only.

**Further reading:**

1. OECD (2011) Payment, clearing and settlement systems in Russia.

**3. Organization and structure of the seminars**

Seminars will follow lectures and normally will consist of three types of assignments:

- Presentation
- Economic brief
- Article review

Besides, students should be ready to comment, discuss, and answer to questions on the subject/issue/case pertaining to the seminar’s topic.

**3.1. Presentations.**

Students will receive discussion questions that are linked to the lecture materials on a particular topic. Textbooks and further reading could be found in Section 2 ‘Course Schedule’ of this Program. It is advised that presentations are made in a PowerPoint format consisting of 10-15 slides.

**3.2. Economic briefs and article reviews.**

**3.2.1. Economic briefs.** Students should use a hands-on approach in selecting topics or areas of discussion, which may cover the most remarkable/sound/promising/expected/unexpected events/trends/perspectives in ICFR including international forex, credit, and securities markets, international financial institutions, and Russia’s role in the global financial markets. Economic briefs should be based on any publicly accessible sources, including HSE’s online library resources.
3.2.2. Article reviews. Students will receive articles published in either academic journals or specialized editions of the analytic and research organizations. Materials can be in the video format as well.

Both economic briefs and article reviews should not appear as just a simple narration of what the events are or what the article is about. Students must show their skills and savvy in developing their broader vision of the issues/ideas/problems as well as in mastering their critical approach when analyzing the core aspects of the events/article so that they will be confident in framing and substantiating their own arguments and conclusions. It is not necessarily to present economic briefs and article reviews in the PowerPoint format; however, it is recommended to do so as visualization of the material is more convenient for the audience to follow.

Duration of speaking in class participation:
– up to 15 minutes for presentations;
– up to 8 minutes for economic briefs and article reviews; and
– up to 5 minutes for comments, discussion and answers to questions.

4. Review (control) work

The review (control) work appears as a test/quiz with 30 questions divided into two parts. Part 1 consists of 15 questions with multiple choice answers (4-5 choices), and students should choose the right answer(s) among them. Part 2 will also consist of 15 questions in the form of statements, and students should specify whether the given statement is true or false. Grading criteria and sample test assignments are shown below (Sections 6 and 7 respectively).

Duration of the review (control) work: 45 minutes.

5. Final exam

There will be two questions in each examination card, and it will be a written exam. Grading criteria of the final exam and sample questions are shown below (Sections 6 and 8 respectively).

6. Grading Criteria

Criteria for grading are based on class participation (30%), review (control) work (30%), and a final exam (40%). Students are graded according to the 10-grade point system.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Grade points</th>
<th>Criteria</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
<td>Comprehensive knowledge of all the course material. Understanding of the cause-and-effect relationships of core elements and processes. Strong arguments in support of own position in the comments and class discussions. Extensive use of further reading(^1). Correct answers to all 30 questions in the test assignment.</td>
</tr>
<tr>
<td>Excellent</td>
<td>9</td>
<td>Comprehensive knowledge of all the course material. Understanding of cause-and-effect relationships of core elements and processes. Coherent reasoning of arguments in support of own position in the comments and class discussions. Extensive use of further reading. Correct answers to 27–29 questions in the test assignment.</td>
</tr>
</tbody>
</table>

\(^1\) Hereinafter including academic literature and reliable open access sources.
<table>
<thead>
<tr>
<th>Grade</th>
<th>Score</th>
<th>Description</th>
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<tbody>
<tr>
<td>Good</td>
<td>8</td>
<td>Sufficient knowledge of all the course materials. Understanding of cause-and-effect relationships of core elements and processes. Solid, but not enough convincing or conclusive arguments in support of own position in the comments and class discussions. Extensive use of further reading. Correct answers to 25–26 questions in the test assignment.</td>
</tr>
<tr>
<td>Good</td>
<td>7</td>
<td>Solid knowledge of all the course materials. Understanding of cause-and-effect relationships of core elements and processes. Consistent, but not enough convincing or conclusive arguments in support of own position in the comments and class discussions. Use of academic literature with priority to reliable open access sources. Correct answers to 22–24 questions in the test assignment.</td>
</tr>
<tr>
<td>Marginal Pass</td>
<td>6</td>
<td>Sufficient knowledge of all the course materials. Overall understanding of cause-and-effect relationships of core elements and processes. Overall consistent, but not enough convincing or conclusive arguments in support of own position in the comments and class discussions. Limited use of further reading. Correct answers to 20–21 questions in the test assignment.</td>
</tr>
<tr>
<td>Marginal Pass</td>
<td>5</td>
<td>Fair knowledge and understanding of the course materials, including the cause-and-effect relationships of core elements and processes. Indecisive, but overall acceptable arguments in support of own position in the comments and class discussions. Very limited use of further reading with priority to required reading only. Correct answers to 17–19 questions in the test assignment.</td>
</tr>
<tr>
<td>Marginal Pass</td>
<td>4</td>
<td>Poor knowledge and understanding of the course materials, including the cause-and-effect relationships of core elements and processes. Weak but overall acceptable arguments in support of own position in the comments and class discussions. Very limited use of further reading with heavy reliance to required reading only. Correct answers to 15–16 questions in the test assignment.</td>
</tr>
<tr>
<td>Fail</td>
<td>1–3</td>
<td>Lack of knowledge and understanding of the course materials, including the cause-and-effect relationships of core elements and processes. Unconvincing and unacceptable arguments in support of own position in the comments and class discussions. Failure to use further reading; exclusive use of required reading only. Correct answers to 12–14 questions in the test assignment (3 grade points), 10–11 questions (2 grade points), 9 questions and less (1 grade point).</td>
</tr>
</tbody>
</table>

*Grading Formula:*
The final grade $G_F$ is calculated based on the weighted mean of:

- Cumulative grade ($G_C$), which consists of the grade for class participation ($G_{CP}$) and the grade for review (control) work ($G_{CW}$), and
- Final exam grade ($G_E$), as follows:

$$G_F = 0.60 \times G_C \left[ 0.30 \times G_{CP} + 0.30 \times G_{CW} \right] + 0.40 \times G_E$$

**Important!**

1. Students are not normally eligible to retake class participation and/or review (control) work in case they failed to pass them.
2. Cumulative grade and final exam grade are rounded up or down to the nearest whole number according to the mathematical rounding rules.

### 7. Sample test assignments for the review (control) work

**Part I. Select the matching answer(s):**

1. The difference between creditworthiness and solvency in international credit relations is in that:
   - A. Creditworthiness is an ability of a borrower to receive a loan, while solvency is an ability of a borrower to timely and fully meet its obligations before a creditor;
   - B. Creditworthiness is an ability of a transnational corporation to receive a loan, while solvency is an ability of a transnational corporation to timely and fully meet its obligations before a creditor;
   - C. Creditworthiness is an ability of a borrower to receive a loan, while solvency is an ability of a creditor to timely and fully meet its obligations before a bank;
   - D. Creditworthiness is an ability of a borrower to receive a loan, while solvency is an ability of a borrower to fully meet its obligations before a creditor.

2. Select possible answer(s) that most accurately is (are) associated with the factors affecting balance of payments of a given national jurisdiction:
   - A. Economic development of different countries
   - B. Improvement of international competition
   - C. Deterioration of international competition
   - D. Devaluation of a national currency
   - E. Appreciation of a national currency
   - F. All the answers above.

**Part II. Are the following statements true (T) or false (F)?**

1. U.S. dollar, Euro, and SDR are world reserve currencies  
   - T  F

2. Difference in quantitative parameters of interest rates in international financial markets contribute to quantitative parameters of an exchange rate of the national currency  
   - T  F

### 8. Sample Questions for the Final Exam

**Topic 1. World economy, and international currency and financial relationships (ICFR)**

1. The notion and concept of ICFR
2. The interplay between the world economy and ICFR
3. Factors determining new emerging aspects of contemporary ICFR
4. ICFR and the processes of economic globalization and regionalization
5. Transnationalization of the market participants and its contribution to ICFR
6. ICFR transformation in the post-crisis period

Topic 2. International monetary system, policy, and regulation
1. Difference between international monetary relations and international monetary system
2. What is currency? Classification of currencies
3. Currency classification criteria. Reserve currencies and how they are distinguished from other convertible currencies
4. Demonetization of gold. Core milestones of demonetization of gold
5. The exchange rate as a value based category
6. Factors affecting the exchange rate dynamics
7. Global, international, and national monetary systems
8. Specifics of the regional monetary systems
9. Differences between Jamaica monetary system and Bretton Woods monetary system
10. The background of euro. Role of euro in the development of European monetary integration
11. Market-based and government-run regulation of monetary relations
12. Forms of the monetary policy
13. Advantages and drawbacks of fixed and floating (free) exchange rates
14. Devaluation and appreciation of national currencies as instruments of the monetary policy
15. Core issues of transition to the convertibility of national currencies

Topic 3. Balance of payments
1. Balance of payments as a projection of international economic activity of the national jurisdiction
2. Structure of balance of payments
3. Classification of balance of payments accounts according to the IMF methodology
4. Balance of payments’ current account and its structure
5. International capital flow and its classification
6. The approaches to measure net balance of payments
7. Factors affecting the balance of payments parameters
8. Balance of payment as a subject of regulation
9. Balance of payment deficit and the techniques for minimization of imbalances

Topic 4. International trade finance
1. Role of international trade finance in the ICFR system
2. Role of the national and regional currencies in international trade finance
3. Role of banks in international trade finance
4. Trade finance instruments. Comparative analysis of bank’s Letter of Credit and Letter of Guarantee
5. Interplay of international forex, credit, and trade finance operations
6. What does the efficiency of the foreign trade deal depend on?
7. Foreign exchange clearings and their forms

Topic 5. International credit
1. International credit as an economic category. Principles and purpose of international credit
2. Role of international credit in the development of the world economy
3. Forms of international credit
4. Comparative analysis of commercial loan and bank loan
5. Reimbursement credit as one of the tools for export credit operations
6. Similarity and difference between creditworthiness and solvency
7. International project finance as a form of long-term international credit
8. International leasing. Types of leasing deals
9. Comparative analysis of factoring and forfeiting
10. Financial and payment terms of international credit
11. Cost of international credit. Types of bank fees and commissions under the credit process
12. Main factors affecting interest rate under international credit
13. Types of international credit collateral
14. Specifics of international credit relations regulation
15. Role and criticality of the export-import banks in the development of international credit

Topic 6. International foreign exchange, credit, and securities markets
1. Difference between international and national forex, credit, and securities markets
2. Structure and participants of international capital markets
3. Specifics of the contemporary international forex markets
4. Economic and institutional specifics of international forex markets
5. International, regional, and national forex markets. Forex markets instruments
6. Types of forex transactions. Foreign exchange position of banks as part of forex transactions
7. Forex options and forex arbitrage
8. International credit market as an integral part of the international financial markets
9. Instruments of international credit market
10. Specifics of the Eurocurrency market
11. Specifics of the international markets of financial derivatives
12. Structure of the international capital markets
13. International gold markets: Functional characteristics and organizational structure
14. Principal mechanisms of restructuring the external debt of national jurisdictions

Topic 7. Risks in international currency and financial relationships
1. Commercial risks of the ICFR participants
2. Forex risks of the ICFR participants
3. Credit, interest rate, and transfer risks of the ICFR participants
4. The core approaches to minimization of the forex and credit risks
5. Protective clauses in the foreign trade deals
6. Role of export-import institutions in financing export-import deals
7. Specifics of hedging risks in the international forex and credit markets

Topic 8. Institutional structure of international currency and financial relationships
1. Role of the international financial organizations in the ICFR development
2. International Monetary Fund (IMF) and the specifics of its credit mechanisms
3. Role of IMF in the ICFR system
4. IMF resources
5. Differences between IMF stabilization loan and structural adjustment loan
6. IMF stabilization programs
7. Importance of the World Bank Group for the contemporary ICFR system
8. Structure of the World Bank Group
9. Credits and credit policy of the World Bank Group
10. Objectives and functional responsibilities of European Bank for Reconstruction and Development (EBRD)
11. EBRD credit policy
12. Institutional structure and specifics of the regional development banks
13. European Central Bank and its contributing role to the efficacy of the post-crisis recovery
15. Financial Stability Board and its authority in shaping the post-crisis mechanism of international banking regulation

Topic 9. International currency and financial relationships of Russia
1. Role and importance of Russia in the contemporary ICFR system
2. Specifics of the monetary policy of Russia and the Russian forex market
3. Balance of payments of Russia and its specifics
4. The limits of convertibility of the Russian ruble
5. International reserves of the Russian Federation
6. Factors affecting the exchange rate of the Russian ruble
7. Russia as a borrower and as a creditor in international credit relations
8. Participation of Russia in the international financial organizations
9. Monetary and financial interplay of Russia in the framework of the regional cooperation (evidence from Eurasian Economic Union)

9. Class Equipment and Software Support

A regular set of multimedia teaching equipment is used for visual demonstration of lecture notes, seminar materials, and student presentations.