

International Finance

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Introduction

- World economy has been heavily influenced by globalization
- Increase in the degree of connectivity and integration of countries, corporations, firms, and the people within them
- Affected both developed and many emerging economies, such as South Africa
 - Countries continue to expand their trade in goods and services
 - Countries continue to reduce their barriers to capital flows
- These two aspects are largely interrelated
- While globalization presents many opportunities it also poses many challenges, as became clear during the GFC of 2008
- Continued development and growth in the use of cryptocurrencies present a number of unique opportunities and challenges for those involved in the foreign exchange market
- During this semester we will discuss the fundamental concepts, principles, and analytical theories that define international finance

Theory of international economic transactions

- Theory relating to international economic transactions is an old and consolidated tradition in the existing literature, where
 - Factors of production are generally less mobile between countries than within a single country
 - Different political entities each with their own frontiers and barriers
 - Relative prices (the exchange rates) possibly vary through time
- These topics are important given the rise in the degree of openness and interdependence of economic systems
- Area incorporates noteworthy theoretical and descriptive aspects
 - Theoretical part seeks to formulate general principles that explain actual events

International macroeconomics and finance

- Associated with aspects relating to international monetary economics, open-economy macroeconomics, or international macroeconomics
 - Focuses on balance-of-payments disequilibria and the automatic adjustment mechanisms
 - Interaction between the balance of payments and other macroeconomic variables
 - Role of various exchange-rate regimes
 - Other aspects relating to exchange-rate determination
- Also incorporates a number of aspects that are prominent features of the finance literature
 - Role of international financial markets, international monetary systems, international policy coordination and international monetary integration (or currency unions)
 - Problems of international liquidity, currency crises, debt problems, etc.
 - Efficiency of international financial markets, where the exchange rate is an asset price

Static and dynamic models

- Much of the traditional international finance literature considers the balance of payments as a relatively static phenomenon
 - Primary concerns relate to the specific determinants of trade and financial flows
- Modern view considers trade and financial flows as the outcome of intertemporal optimal saving and investment decisions that are made by forward-looking agents
 - Models are based on policy-invariant microfoundations and rational expectations, where stochastic components describe the effects of economic shocks
- Utilize many concepts from macroeconomics and finance that make use of static and dynamic model that would be useful to understand real-world phenomena

Globalization

- According to Wikipedia:

“Globalization refers to the free movement of goods, capital, services, people, technology and information. It is the action or procedure of international integration of countries arising from the convergence of world views, products, ideas, and other aspects of culture.”

- Increase in the share of international and transnational transactions
- Integration of world markets and convergence of prices
- Cultural convergence and increased awareness of common global problems

Economic Globalization

- From an economic perspective the primarily focus is on:
 - Actual degree of integration of markets and development of indexes to measure the degree of globalization
 - Reducing the autonomy in policy making
 - Effects of globalization on world income distribution
 - Possible development of an international government
- These affect both large developed-world economies and small economies within the group of emerging markets or low-income countries

Conclusion

- Future global business leaders will need to understand the issues relating to the effects of globalization if they are to make sound international financial decisions
- Also need to manage the myriad of risks that their businesses face in a competitive global environment
- Objective of this course is to prepare students to deal with these and other real-world issues