FINC6013
International Business Finance
Semester 1, 2023

Group Assignment

Group formation:

This is a group research project that must be completed and submitted as a group. To encourage collaboration, students are encouraged to form a group of 2-5 students during the first four weeks of the semester. Forming groups across different tutorials are permitted. The tutor will also facilitate group formation in tutorial classes. The class tutor should be the first contact if you need any help with the assignment (group formation and preparation). The "Discussion Forum" on Canvas has a dedicated section on group formation and assignment preparation.

Each group is required to complete the group registration by week 4 (26th March 2023) on Canvas. Click on the tab "people", then "Assignment Group". You can choose to enrol into any of the unfilled groups in the list. Group registration will remain open until the end of week 4. Students without group registration by then will be randomly assigned to an unfilled group in Week 5. Please make sure to complete group registration before it is closed.

Mark Allocation:

This project will be marked out of 30 and constitutes 30% of your overall grade.

Length:

The length of the project must NOT EXCEED 12 typed pages with double spacing, 12 points Times New Roman, including executive summary and references but excluding appendix, if used. Appendices must not exceed 5 pages. There will be a penalty of 1 mark per page for not meeting this requirement.

What's included in the 12-page limit?

- Executive summary[1]
- Assignment body
- Tables

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[1] An executive summary outlines your report so that reader/s can overview your key messages before reading your assignment. To save space, you are allowed to put the executive summary and the body of your report on the same page.

- Figures
- Reference list

What's excluded from the 12-page limit?

- Title (Cover) page
- Table of contents
- Appendices

Due date:

The due date for the project is **11:59pm 8th May 2023**. A late penalty of 5% mark per day is applicable (see Unit outline).

Submission:

The only acceptable form of submission is electronic via the submission link in the unit's Canvas site. Hardcopy and email submissions will NOT be accepted. Late submissions will be penalized. See below for penalty details. All submission will be checked through TURNITIN for similarity with external sources.

Submission format:

Each group can only submit ONE project report. The group leader (**as determined in your first group meeting**) is required to submit the assignment. (Do NOT submit if you are not the group leader). It is imperative that your project report is submitted in ONE document. Only a PDF format document will be accepted, and it is your responsibility to ensure all pages correctly display your original content. Missing or distorted figures and formulas will result in lower marks.

Cover page:

Ensure the Student Identification Number (SID) of EACH student is on the cover page of your assignment. The name of student must NOT show up on the assignment to ensure the anonymous marking requirement. The cover page should be submitted with the assignment in a single file (as the front page).

Document name:

Your project PDF file must be named in the following format:
FINC6013_Groupnumber _2023.PDF
Example:
FINC6013_Group23 _2022.PDF
There will be a penalty of 1 mark for incorrectly named projects.

Referencing:

List of references used and in-text citations must follow the Harvard referencing style
http://libguides.library.usyd.edu.au/content.php?pid=160012&sid=1510179
Students are expected to use more than 6 academic references in total. Ensure to use academic reference (not solely web sources) to support your discussions/arguments.

Presentation:

Pay particular attention to presentation. A significant component of your mark will be based on presentation. Avoid overdoing formatting, and ensure that the assignment is very clear, logical, and professional. Pay attention to grammar. Clear and logical presentation is a major challenge. Preparing a concise report is another major challenge. Every part of the assignment should add to the end result otherwise it is superfluous and distracting.

Information sources:

- FRED® database of the Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/
- Central bank web sites of relevant currencies (must provide relevant data for sufficient periods)
- Web sites of international organizations – OECD, IMF, BIS, etc.
- International Financial Statistics (On-line database available from Fisher Library's web site)
- Newswire and financial newspaper reports (accessible via Factiva database from Fisher Library's web site)
- Other Web sources – market commentaries of FX and money market movements

PENALTIES:

Late penalty:
Refer to Unit outline.

Incorrect format penalties:
1 mark per page for exceeding the page limit.
1 mark penalty for inappropriate referencing and formatting.
1 mark penalty for a failure to follow the naming convention of the project.

Plagiarism:

While discussion and collaboration are expected, plagiarism is a breach of the University of Sydney Code of Conduct and will be dealt with by the Faculty.
http://sydney.edu.au/student_affairs/plagiarism/index.shtml

Be sure to acknowledge all of your source materials and provide proper citations for any quotes. Checks for similar contents (web materials, other students' projects, etc.) and plagiarism will be conducted by TURNITIN and the projects with a similarity index significantly above an acceptable level will be

reported to the faculty and this may result in a zero mark being awarded for the project. **You may use generative AI responsibly as a tool to support your analysis. However, the report must be your own original work.**

Group work ethics:

Every group member is expected to be actively engaged in the whole process of group assignment. Though it is hard to divide the work completely equally, "free-riding" practice will not be tolerated.

From week 4 to week 10, you are expected to meet at least four times to discuss the assignment tasks and to update your group members on your progress. At your first group meeting, please decide who will be the group leader. The group leader will be responsible for coordinating the work of the group and submitting the group report by the deadline.

Each group member will complete the **Peer Performance Assessment Form (available on Canvas)** and submit the form online and separately online. Due to the limited marking time, we must give all group members the same mark based on group performance. However, free riders will be penalised and the information you provide on the Peer Assessment Form will be used to determine whether a group member has made a reasonable contribution to the group's work.

Carry Trade, pandemic and inflation

A currency carry trade involves investors arbitrage upon interest rate differentials between two currencies. Historically, carry trade was profitable by borrowing a low interest currency, such as Japanese Yen and investing in a higher interest currency, such as AUD or USD. While the world was battling COVID-19 pandemic since 2020, various economic policies, especially monetary tools have been adopted to overcome the challenges caused by the disruptions to economic activities, which certainly impacted the financial market significantly. A striking influence of these tools is the price spike experienced by most countries in the world in the recent years. The purpose of this assignment is to examine the profitability of carry trade in the last few years in the context of the economic environment before and during the pandemic. A high-quality assignment should include a balanced quantitative and qualitative analysis and the arguments are well supported by either academic or/and industry references.

Each group is first required to select a SINGLE pair of currencies of YOUR OWN GROUP'S CHOOSING. Once you have decided on the pair, you are required to research online to find and collect the following real-world data: (i) exchange rate, and (ii) monthly (usually 30-day or alternative short-term) money market interest rates for both currencies (i and i *). Make sure your selected pair of currencies have no missing data in recent years.

There are four parts of the assignment listed below:

1. Examine UIP violations pre-pandemic during 2018-2019 (6 marks)

a. Justify your choices for both currencies and interest rates. Predict the exchange rates at the end of each month for the period January 2018 to December 2019 assuming UIP is valid. Present and discuss

(1) time-series of the predicted and actual realized exchange rates in one figure, and
(2) time-series of the deviations between them in another figure.

b. Since the UIP condition can be represented in different ways, deviations from the uncovered interest rate parity can be represented in different ways as well. One form of deviation is the difference between the forecasted and the actual exchange rate, as discussed above. Another form is the difference between the percentage change in the exchange rate and the interest rate differential. Present a scatter plot of the interest rate differential (on x axis) and the percentage change in the exchange rate (on y axis). Describe whether your data points lie on the 45-degree line through the origin and discuss the implications of the plot.

c. Discuss the forecast accuracy of exchange rates and implications to the validity of UIP during this two-year period. Identify and demonstrate the causes of the periods, if any, where the UIP appears to have been significantly violated. Would you think you have identified a profitable carry trade strategy?

2. Profitability during 2020-2022 (6 marks)

As an analyst at the start of 2020 (who doesn't yet know of the COVID pandemic and economic turbulence in the near future), you try to profit from the carry trade strategy as identified in Task 1 Part c.

a. Describe the carry trade strategy that you will apply in Task 2 so that any traders can perfectly replicate this strategy based on the description.

b. Calculate the monthly carry trade profits/losses in terms of your financing currency, assuming that investors invest a certain amount of money at the beginning of 2020 and apply the strategy for the entire period from January 2020 to December 2022. Report the performance of your investment using various performance metrics, so that readers have a comprehensive understanding on the performance of the strategy.

c. Identify and discuss the main factors contributing to the profit/loss of your strategy.

3. Empirical tests of the UIP (6 marks)

Use a regression to test the validity of the UIP for the two currencies you have chosen employing all data ranging from 2018-2022. You can use Excel's data analysis add-in or any of the statistical packages you have access to.

a. Be sure to
(1) clearly identify the regression model
(2) indicate the null hypothesis you are testing, and
(3) provide appropriate discussions on the results of the regression analysis.

b. Redo your hypothesis test for the 2018-19 and 2020-2022 sub-periods separately, and what do you find and why?

4. Conclusions and Recommendations (6 marks)

a. Draw a conclusion on whether carry trade is still profitable and explain why or why not? You should use solid references to support your arguments.

b. Do you recommend the same strategy for 2023, or do you recommend any changes to the strategy that would make it profitable in 2023? Justify your recommendations.

Additionally, **6 marks** will be awarded for high quality executive summary presentation, references, and academic writing.