**ADWC BUSINESS DEPARTMENT**

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**FIN 4033: International Finance**

**Assessment 3: Project: Online Currency Tracking and Analysis**

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| --- | --- |
| **L. O.s Covered by this Assessment:** | CLO 2- Differentiate between the various exchange rate regimes  CLO 3- Analyze the impact of trends in Balance of Payments on international trade and finance  CLO 4**-**- Explain the operation of foreign exchange markets and the forces driving foreign exchange rate changes  CLO 5 - Evaluate the methods of managing foreign exchange exposure |
| **% of Final Grade:** | **30%** |

|  |  |
| --- | --- |
| **Group members Names and**  **ID Numbers** | 1.  2.  3.  4.  5. |
| **Overall Grade:** | **/100** |

HCT Academic Honesty Policy

**Academic dishonesty will not be tolerated within the HCT. Academic dishonesty includes cheating, plagiarism (copying) or any other attempt to gain an academic advantage in a dishonest or unfair manner.**

**Fin 4033: International Finance**

**Currency Tracking Group Project Report (30%)**

***Final Report Submission Due: Week: TBA***

**Project Goal:**

A large part of the International Finance course deals with the behavior of exchange rates in the short run as well as in the long run. The course covers the major factors lead to strengthening or weakening of a currency. Furthermore, risks associated with currency movements constitute a core part of the course. It is believed that a practical work in the foreign exchange market complements and strengthens the depth of understanding and applying the theories and concepts discussed in the course. Thus, the goal of this project is to implement learning by doing and to enable students to examine and perform actual practice of the entire process of:

**1. Currency Tracking**

**2. Analysis of movements in exchange rates**

**3. Identifying factors affecting exchange rate movements**

**4. Evaluating impact of economic, and non-economic factors on exchange rates.**

**5. Long run movements in exchange rates**

During the course of this project, **you will track the currencies of 2 countries against the USD, research and analyze the underlying causes for the movements in the respective currency exchange rates and evaluate the impact of those various factors affecting exchange rates in the short run (at least 4 weeks of daily transactions)** (see project tasks below). Also you will report the long run behavior of the currencies by **examining historical data ranging from 10 to 15 years**. In your **long run analysis, you will obtain annual inflation rates of your chosen 4 country and the US** for the given period( USD/AED) for example . By plotting the **annual percentage change of the exchange rate** of your chosen country against the **inflation differential** between the two countries you will be able to provide analysis of the relationship between long run exchange rate movements and inflation differentials. This will allow you to assess the relative purchasing power parity theory of exchange rates. You are required to reflect on your results of the relationship between exchange rate movements and inflation differentials.

At the end of the period, your team will be required to turn in a professionally prepared report that documents your currency tracking activities over the course of the four weeks and the long run behavior of your currencies over the last 10 to 15 years. Your report would conclude by summarizing your major finds of your study and pointing out key lessons learned from the project.

**Structure of Final Report should have the following components:**

Four components will go into the determination of your grade on this project:

**1. Introduction**: provide a brief introduction of the foreign exchange market by including a precise description of the market. This includes a clear description of exchange rate theory covering short run and long run determinants of exchange rates with the appropriate references.

(About one page)

**2. Short run analysis**: Data presentation in the form of tables and graphs with analysis of rate changes over the relevant period. This short run analysis should cover both demand and supply factors relevant for the currency under study. The analysis should identify the most important factors underlying the changes in the exchange rate during the period under study.

**3. Long run analysis**: data on annual exchange rates and inflation differential for 10 -15 years is required. It is necessary to have a large sample to be able to see valid relationships so the larger the sample the better the work. Analysis and evaluation of relative purchasing power parity (RPPP) – assess the relationship between the rate of change of the exchange rate and inflation differential. In the event of significant deviations from RPPP, provide possible explanations for such deviations.

**4. Conclusion**: summary of findings

**Details of Project Tasks:**

**There are four major tasks to be performed in the currency tracking project.**

**1. Short Run Analysis (Demand and Supply)**

Each student will select a currency and track its daily average value in terms of the USD for a period of at least 4 weeks, record and save the results. For example, if your currency is the British pound your rates will be **USD/GBP (USD per British pound)**. Furthermore, each student will prepare a table containing dates and rates, create a line graph of the rates (on the vertical axis) and dates (on the horizontal axis) to be able to see the trend in the movement of the rates. Write a short **introduction** of the forex market and exchange rates followed by a brief description of the reasons for the observed movements in your currency exchange rate (internet research is required to complete this task).   
**Short Run Analysis:**

Prepare a report that includes the following essential requirements:

a) Introduction a short description of the FOREX market and exchange rates.

b) Describe the currency exchange arrangement for the currency you tracked.

c) Describe the daily movements in the exchange rate. Include Table of average daily rates and a line graph for the period.

d) Indicate high and low- for the period.

e) Review the movements of your currency in terms of the USD and indicate whether your currency became weaker, stronger or remained steady during the period.

f) Highlight the main events and activities in the global FOREX market during the period. Look for demand and supply factors that may explain the behavior of your currency (Minimum of 2 articles relevant for your currency)

g) Explain the impact of these events on your currency.

**2**. **Long Run analysis**: **Relative Purchasing Power Parity**

Obtain data on annual exchange rates relative to the USD for your currency **(10 to 15 years).** Obtain inflation rates for your currency (for example, if your currency is the British pound get UK inflation rate for 10 – 15 years) and US inflation rates for the same period. Calculate the annual percentage change of the exchange rate and the difference between US inflation and the inflation rate for your currency (this is called the inflation differential). Prepare a table these two variables (annual percentage change of the exchange rate and the inflation differential). Create a graph (percentage change of the exchange rate on the vertical axis and inflation differential on the horizontal axis).

Recall that the theory of relative purchasing power parity states that in the long run there is a strong positive correlation between the rate of change of the exchange rate and the inflation differential. Assess the validity of this theory based on the behavior of your graphs. In case of significant deviation from RPPP, suggest reasons for such deviation.  
**Data and Long run analysis section**

1. Each Student needs to obtain actual annual exchange rates of their chosen currency in terms of the USD for at least 10 years (the more the better).

2. Obtain inflation rates for the chosen currency and the USD and calculate the inflation differential between the two countries (inflation of your currency minus inflation of the US). On the same set of axes plot the annual percentage change of the exchange rate and the inflation differential (on the vertical axis) and time in years (on the horizontal axis). Based on the behavior of the graphs evaluate the validity of relative purchasing power parity. If you find large deviation from relative purchasing power parity, suggest reasons for such deviation.

**3. Summary and Conclusion**

Write a short summary of findings and conclusion

**Detail Guidelines**

**Data**

**1. Use a reliable FOREX website** to record average daily forex rates from ----- **and r**ecord the FOREX rates. You will start with the average rate for the **previous two weaks**

**Suggested site:**

**2.** You may use **EXCEL** to store data and produce charts (**line graphs**) that show movements of each currency under study. (for the both of the two counties against the $ )

**Brief Summary and Conclusion**

**Sample Currencies**

**Anchor Currency (USD)**

|  |  |  |
| --- | --- | --- |
| 1. **GBP** 2. **EUR** 3. **JPY** 4. **CHF** 5. **AUD** | 1. **SGD** 2. **NZD** 3. **INR** 4. **MXN**   **10.ZAR**  **11. CAD** | **12. HKD**  **13. SEK**  **14. NOK**  **15. RUB**  **16. BRL** |

**Note:**

**If you choose AUD you will track USD/AUD (the price of one AUD in terms of USD)**

**For example, on March 21/2020: AUD 1 = USD 0.5800**

**Here AUD is called the base currency and USD is called the quote currency.**

**In your currency tracking project all of you will use the USD as the quote currency and your chosen currency as the base currency.**

**Fin 4033: Project Report Assessment Criteria (30%)**

**Group** **Report Grading Rubric**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Marks Available | Marks Received | Comments |
| Introduction   * Concise description: * The FOREX market * Exchange Rate Theory both short run and long run theories must be covered | 20 |  |  |
| Short Run Analysis   * Graphical and tabular presentation of data * Analysis of Exchange Rate Movements * Outline of factors causing exchange rate movements in the short run * Demand factors specific to the relevant currency * Supply factors specific to the relevant currency * Currency specific description of trends in rates | 40 |  |  |
| **Long Run Analysis:**   * Graphical and tabular presentation of data * Presentation relative purchasing power parity (RPPP). * Evaluating RPPP: as a relationship between the rate of change of the exchange rate and the inflation differential. * Explanation of deviations from relative purchasing power parity | 30 |  |  |
| **Conclusion**   * Main Findings and lessons   **Overall quality of report**   * Format * Language clarity, * Flow of ideas, * Spelling | 10 |  |  |
| **Total Marks** | 100 |  |  |

Grade \_\_\_\_\_\_\_\_\_\_\_\_\_