**FIN 358 International Finance**

**PROJECT**

***Due Tuesday, December 12, 11:59pm.***

Please prepare a report for a country of your choice. Your report should be**15 pages** long including detailed analysis of exchange rate, country stock index and macroeconomic data. There will be two parts in your report: country analysis and investment analysis. In addition you should submit a**1 page summary** with your overall recommendation. The summary should state whether you recommend or not to invest in a country stock index for the next five years. It should summarize the main reasons for your recommendation based on macroeconomic risks, past performance (risk-return tradeoff such as Sharpe ratio) and potential benefits for portfolio diversification.

1. Country Analysis
2. Macroeconomic trends and risks

Discuss Balance of Payments (Current Account surplus or deficit) , exchange rate, GDP growth, inflation, monetary policy, fiscal deficits/surpluses, yields on government bonds compared to the US T-bonds for the last 5-10 years.Macroeconomics data can be searched from the Central bank website of a country and from the [IMF website](http://data.imf.org/?sk=7CB6619C-CF87-48DC-9443-2973E161ABEB)among other sources. Exchange rate is available from the [The Pacific Exchange Rate Service](http://fx.sauder.ubc.ca/)or from [FRED](https://research.stlouisfed.org/fred2/) database among other sources.

1. Is the country open to foreign investments? Discuss restrictions on foreign investments, capital controls, political environment and any other risks of investment in the country.
2. Investment Analysis

Find the monthly data on the country’s major stock index (see [MSCI Barra](https://www.msci.com/end-of-day-data-country) or other source). Show the country stock index return in local (foreign) currency*rfc*and in USD*r($).*Note the conversion from the return in local currency into the USD using % change in exchange rate term*e:*

$$e=\frac{(S\_{t}-S\_{t-1})}{S\_{t-1}}$$

$$r\left(\$\right)=r\_{fc}+e$$

Look at the performance for the last 10-20 years of the country return in dollars*r($)*relative to the MSCI world index return (**ACWI)**and the USA index return. For the USA index use either MSCI index for USA or SP500 index. The data for the ACWIindex and the USA index can be obtained from [MSCI Barra](https://www.msci.com/end-of-day-data-search) website.The SP500 index data are available e.g. from[Yahoo Finance](http://finance.yahoo.com/).

1. Report the mean, standard deviation and the Sharpe ratiofor the country return in dollars*r($)*, USA index return and ACWI. Compare and discuss them. (Note: The T-bill (4 weeks or 3 months) can be used as a risk-free assetand data are available from the [Fed website](http://www.federalreserve.gov/releases/h15/data.htm).)
2. Find the correlation between the country stock index return and the USA index return. Would it be beneficial from the point of view of international portfolio diversification to invest in this country for an investor holding only the USA index portfolio?