

A. Zadoia, O. Zadoia

***International  
Investment  
Activity***



**A. Zadoia, O. Zadoia**

**INTERNATIONAL  
INVESTMENT ACTIVITY**

**Textbook**

**The second edition, supplemented and revised**

**Electronic edition**

**Dnipro  
2026**

**УДК 333.727.22**  
**Z 26**

Approved by the Academic Council  
of Alfred Nobel University  
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This textbook provides basic knowledge in the field of international investment activity, the regularities of the international investment process, the forms of its implementation and regulation at the state and international levels. The course includes two substantive modules: "Principles and Management of International Investment Activity" and "International Activity in the Financial Investment Market". Studying the course contributes to the formation of knowledge and the acquisition of analytical and practical skills in the field of foreign investment, including in the specific conditions of Ukraine. The material is presented in the form of diagrams, drawings and supporting concepts, which simplifies the formation of basic knowledge, which is supplemented by independent study of the literature recommended by the teacher.

Intended for students of the specialty "International Economic Relations" and all those interested in issues of international investment activity.

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## Introduction

Today, international investment activity, in terms of its scale and degree of influence on national economies and global economic processes, belongs to the group of decisive factors. Therefore, when training specialists in international economic activity, studying the discipline "International Investment Activity" is an important component of the formation of professional competencies.

The purpose of teaching the academic discipline "International Investment Activity" is to form in students an understanding of the laws of international investment activity, providing knowledge and acquiring analytical and practical skills in the field of implementing foreign and foreign investments, including in the specific conditions of Ukraine.

The task of the discipline is to study the principles of investment by the state, international and national corporations, as well as the most common instruments of international investment.

According to the requirements of the educational and professional program, students must:

***know:***

- the essence of international investment, their place and role in modern international business;
- methodological principles of international investment activity;
- the essence of the investment activity of transnational corporations;
- the essence of international investment activity in the financial investment market;
- tools for analyzing the international investment market;
- the mechanism for regulating international investment activity;
- the main principles of the activities of Ukraine and Ukrainian producers in the international investment market;
- the essence of the investment activity of transnational corporations.

***be able to:***

- investigate the features and difficulties that arise in the international investment market;
- independently analyze the state of international investment activity;

– use methods of managing a portfolio of international investments.

The course “International Investment Activity” includes two content modules: **“Principles and Management of International Investment Activity”** and **“International Activity in the Financial Investment Market”**.

**The first content module** explains the essence of international investment activity and the principles of its implementation, specifically studies direct and portfolio foreign investments, studies the infrastructure of international investment activity, methods of assessing the effectiveness of international investment projects, forms and methods of state regulation of the international investment process and its features in Ukraine.

**The second content module** is devoted to the study of international activity in the field of financial investments. The world market of stocks, bonds and derivative securities is specially studied, the practice of using various indices to assess the state of the stock market, and the basic principles of forming an investment portfolio and managing it are considered.

The proposed training manual includes methodological materials for each course topic. They consist of a list of basic questions that reveal the content of the topic, a brief description of each question and a list of problem situations, the analysis of which will allow you to check your own knowledge and the degree of assimilation of the material.

Those who study should understand that the materials of the manual are only a basis for a more in-depth study of the discipline. It cannot answer all questions. Therefore, it is necessary to study additional literature, a list of which is provided at the end of this manual.

This edition is an English-language version of the textbook, which was published several years ago<sup>1</sup>. It has been supplemented with new material taking into account current trends in the development of international financial relations and new geostrategic realities.

The authors are grateful to all those who contributed to the writing and preparation for printing of this textbook.

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<sup>1</sup> Задоя А.О. Міжнародна інвестиційна діяльність: навчальний посібник [Електронний ресурс] / А.О. Задоя. – Дніпро: Університет імені Альфреда Нобеля, 2018. – 122 с.

## **Content module 1. Principles and management of international investment activities**

### **Chapter 1**

#### **Features and principles of international investment activities**

##### ***The questions that reveal the content of the theme:***

1.1. The essence of investments. The concept of investment activities. Sources of investments.

1.2. Description and purposes of international investment. Forms of international investment. The subjects and objects of international investment.

1.3. Motivation of participants of international investment activities.

1.4. The impact of international investment activities on developing home base countries and host countries.

##### **1.1. 1.1. The essence of investments. The concept of investment activities. Sources of investments**

**Investment (Latin - investio, Ger. – Investition) means "to invest".**

###### ***F. Kene:***

**Investments** are costs necessary for the production, which determine the value of the goods. The investments presented in money terms are divided into fixed and working capital and reimbursed the price of the goods.

###### ***Jh. M. Keynes:***

###### ***Investments are:***

“... the current gain of the capital property value as a result of industrial activity this period”.

“...and share of profits for the period, which was not used for consumption”

**Investments** shall be all kinds of material and intellectual values, which are made to objects of business activity and other kinds of activity, and result of which is connected with creation of profits, or other achieved social effect.

***Law of Ukraine "On investment activity"***

**Forms of investment:**

- Money, target bank deposits, shares, stocks and other securities
- Real estate and movable estate
- Property rights arising from copyright, experience and other intellectual values
- Know-how
- The rights use of resources
- Other values

From a **microeconomic** perspective:

**Investment** is any economic instrument in which funds can be invested to generate profit (income)

From a **macroeconomic** perspective:

**Investment** is the financing of the functioning, growth and development of the national economy

**Gross investment** is the total amount of funds invested in a certain period, directed towards new construction, acquisition of means of production and increase in inventories.

**Depreciation charge**

**Net investment**

**Investment activity** is a consistent, purposeful activity that consists in the capitalization of property objects, in the formation and use of investment resources, in the regulation of investment processes and the international movement of investments and investment goods, in the creation of an appropriate investment climate and is aimed at obtaining profit or a certain social effect.

## Subjects of the Investment Activity

### **By originally:**

- authorized bodies to manage state and municipal property or proprietary rights;
- citizens, including foreigners;
- companies, business associations and other legal entities, state and international organizations

### **By role:**

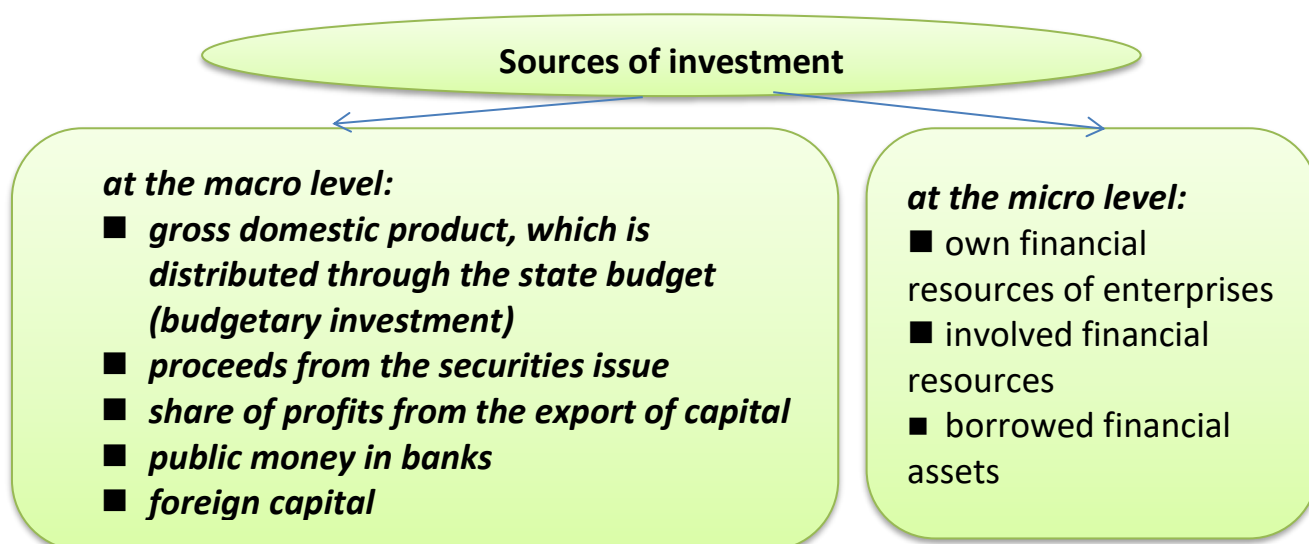
- Investors
- Customers (recipients)
- Contractors
- Suppliers
- Banks
- Intermediary companies
- Commodity and Stock Exchanges

### **Objects of the Investment Activity:**

- any property, including real and working capital in all sectors and areas of commercial complex;
- securities;
- special-purpose contributions;
- research and development products;
- intellectual valuables;
- other objects of property;
- property rights.

**Real investment** is investing in tangible (buildings, facilities and equipment) and intangible assets or innovation (patents, licenses, "know-how", documentation of scientific and technical, and design works, software, etc.)

**Financial investment** is contribution of assets in various financial tools - securities, deposits, special bank deposits, government bonds to cover budget deficits.



## 1.2. Description and purpose of international investment. Forms of international investment. The subjects and objects of international investment

**International investment activity** is an activity related to:

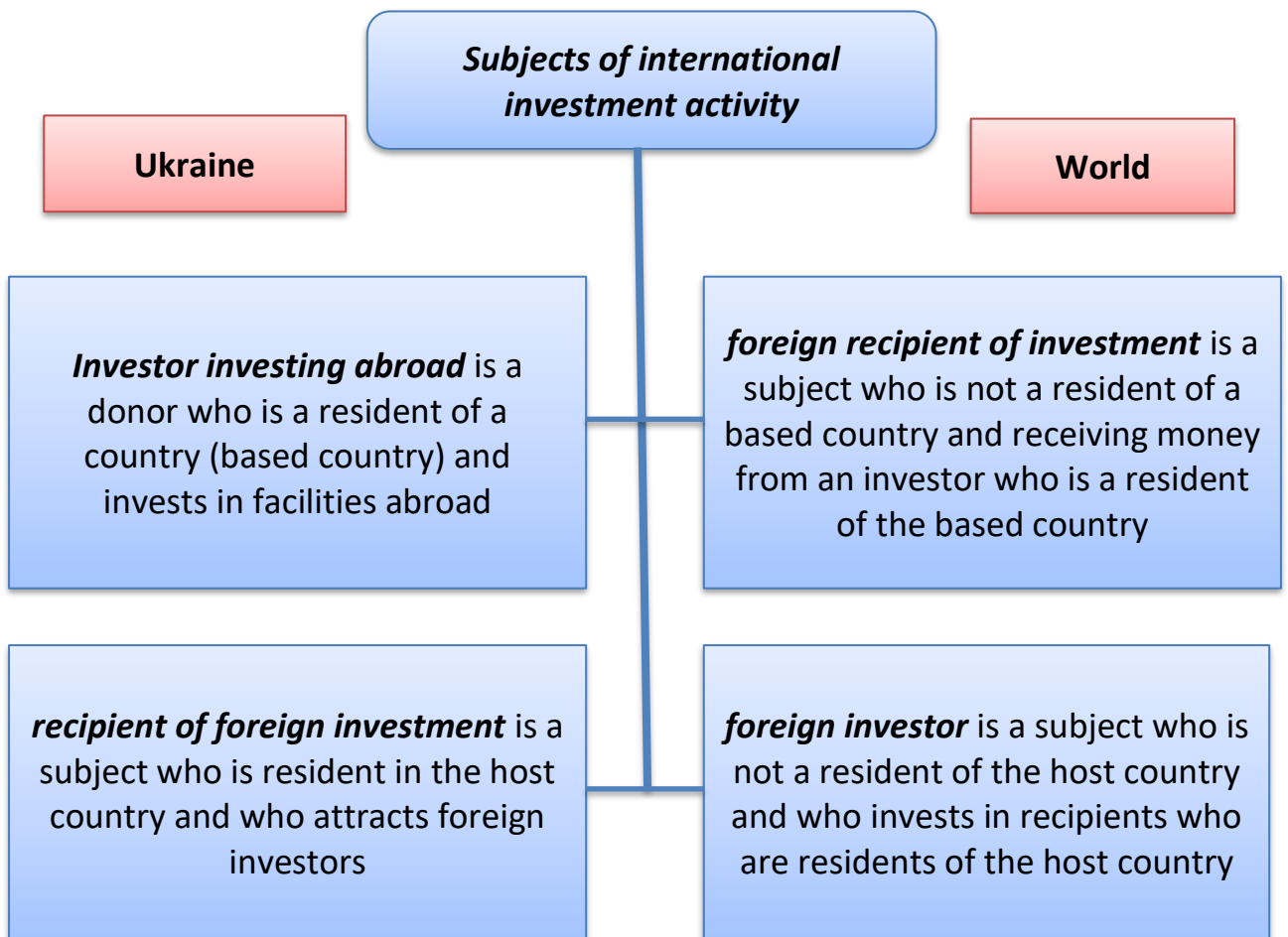
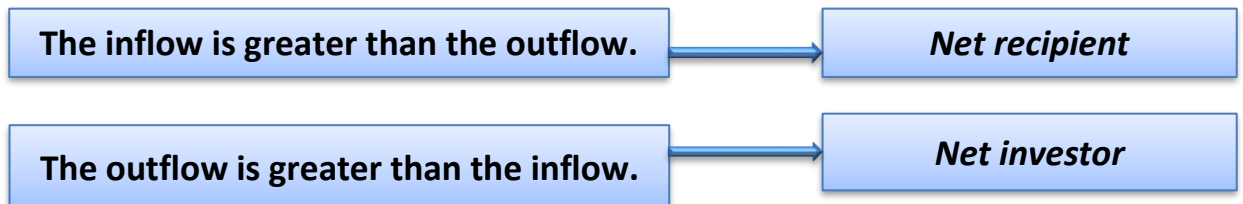
- exports and imports of capital, technologies, services,
- implementation of projects with other countries,
- creating joint ventures,
- the integration processes in various areas.

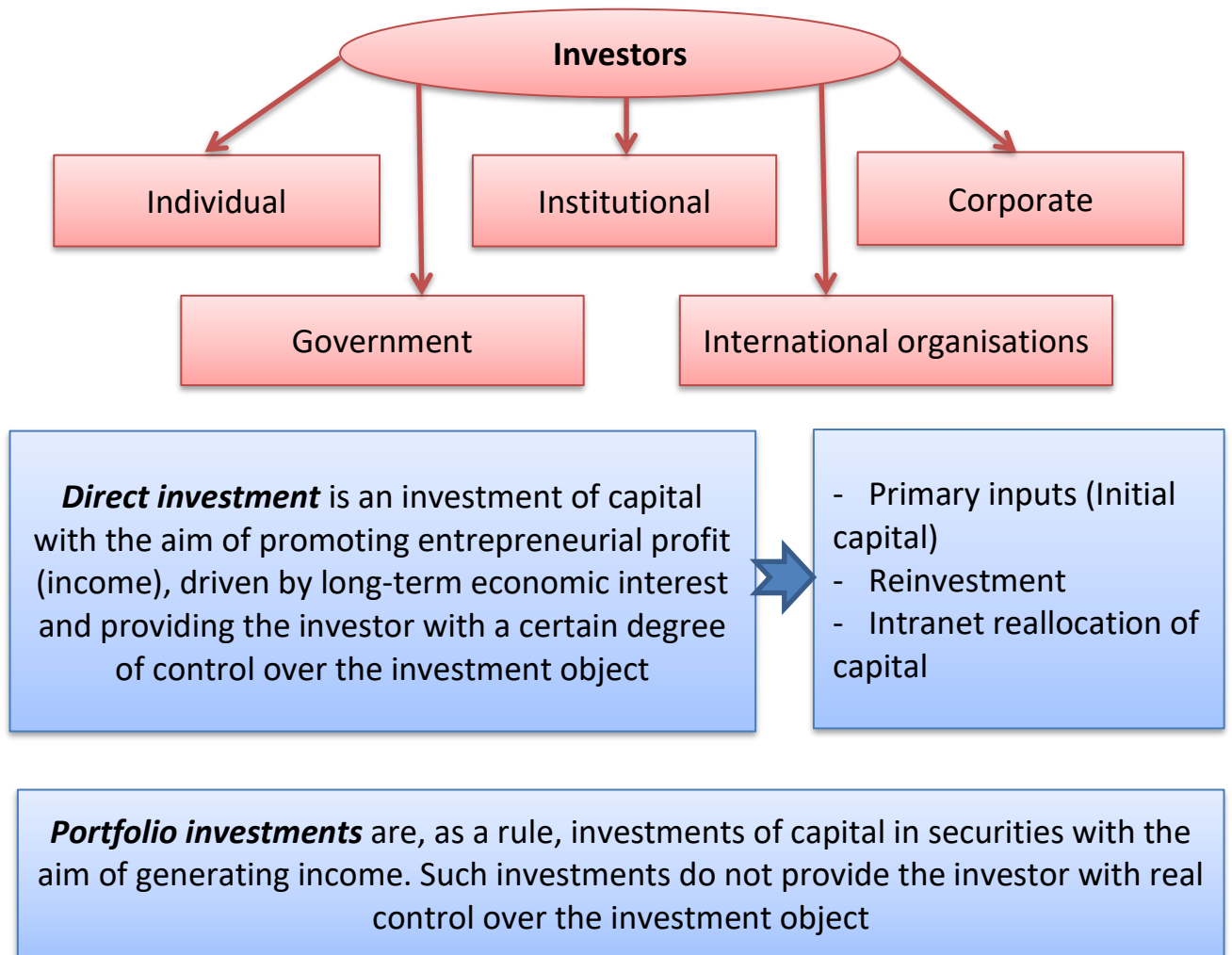
**Capital flight** is a transfer of significant volume of capital to countries with favorable investment climate (to avoid high taxation level, the negative effects of inflation, the risk of expropriation, etc.).

***In order to become an international investment, an investment resource must cross the customs border!***

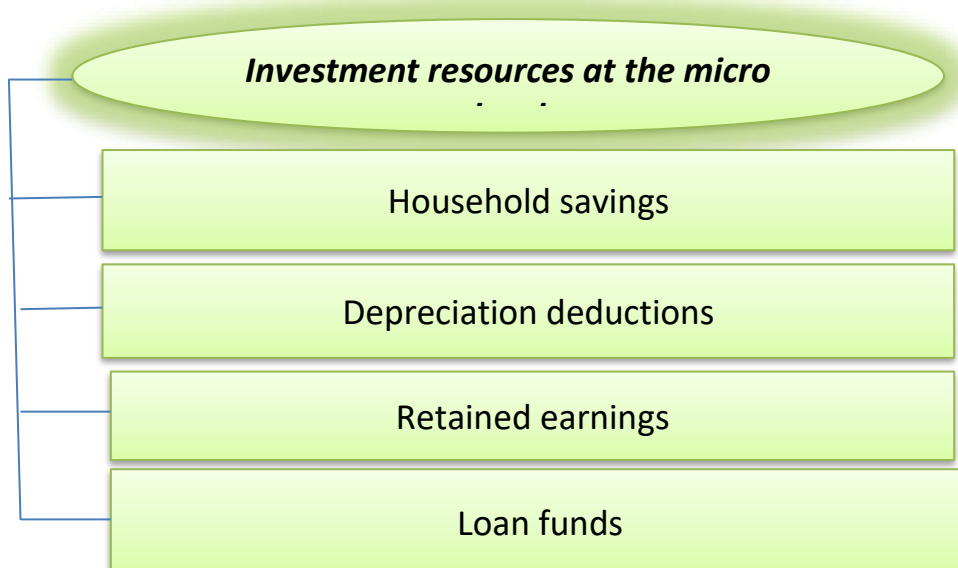


**Net capital inflows** are the difference between the amount of cash receipts from abroad (through loans and sales to foreign investors of financial assets) and the volume of capital export in the form of loans to foreign borrowers or purchase of financial assets - foreign issuers.





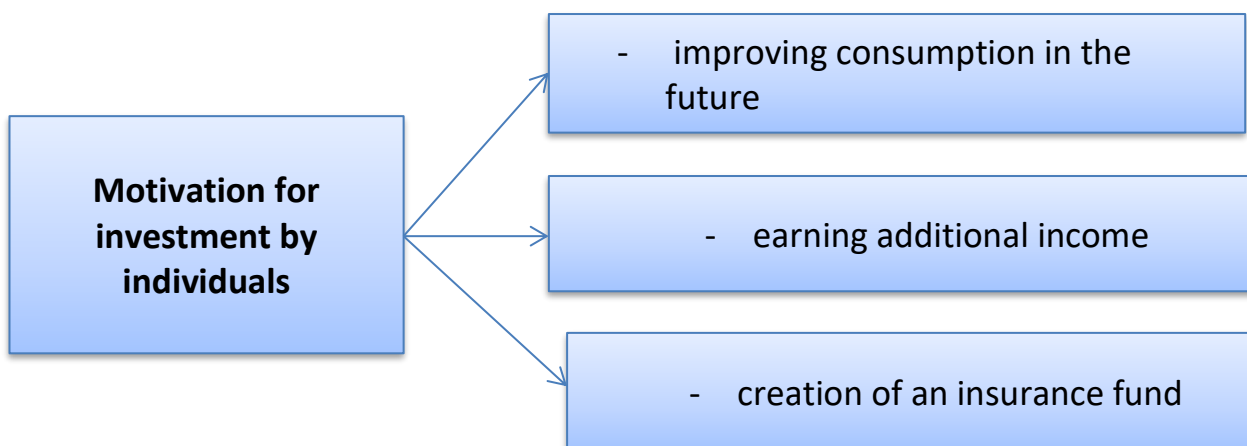
### 1.3. Motivation of participants of international investment activity

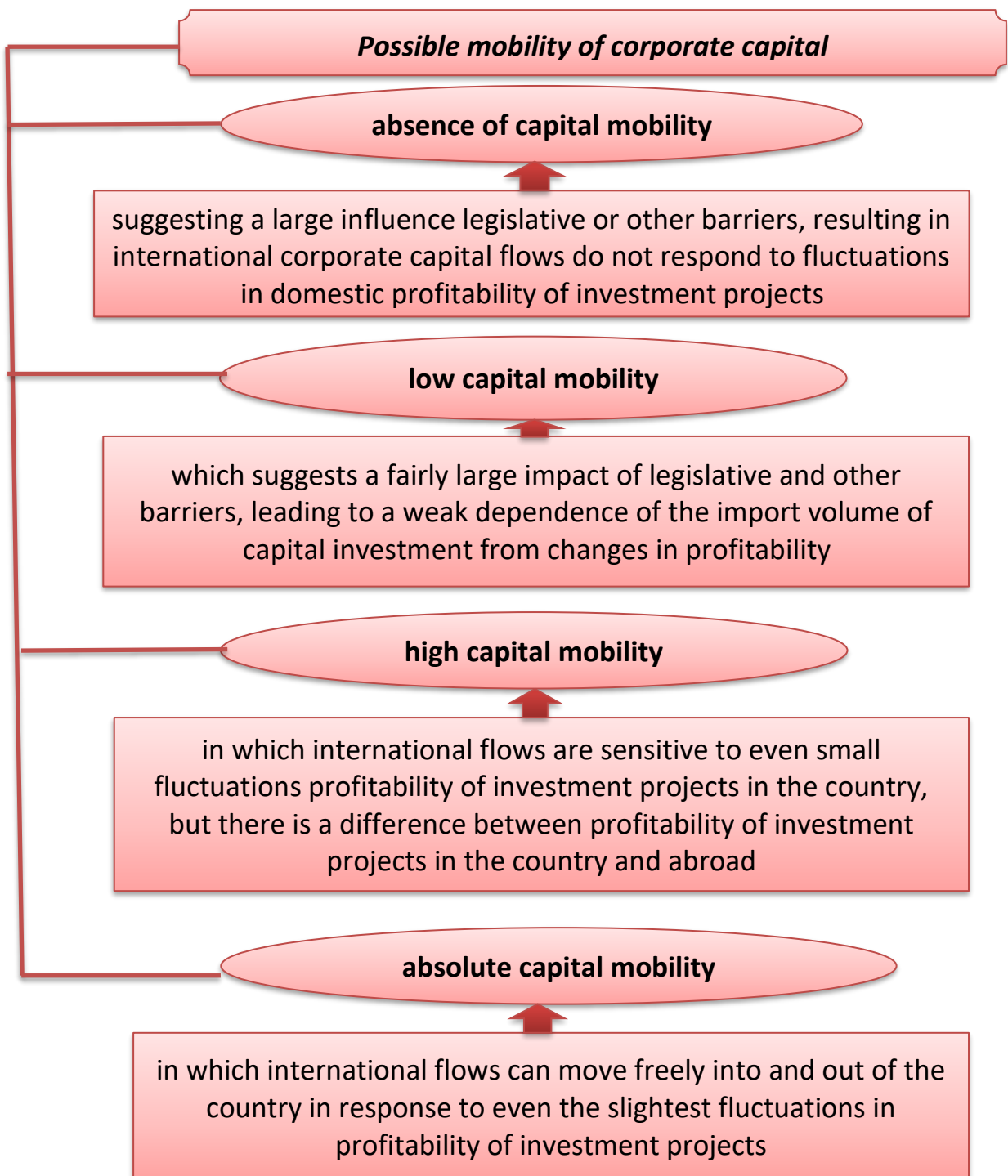
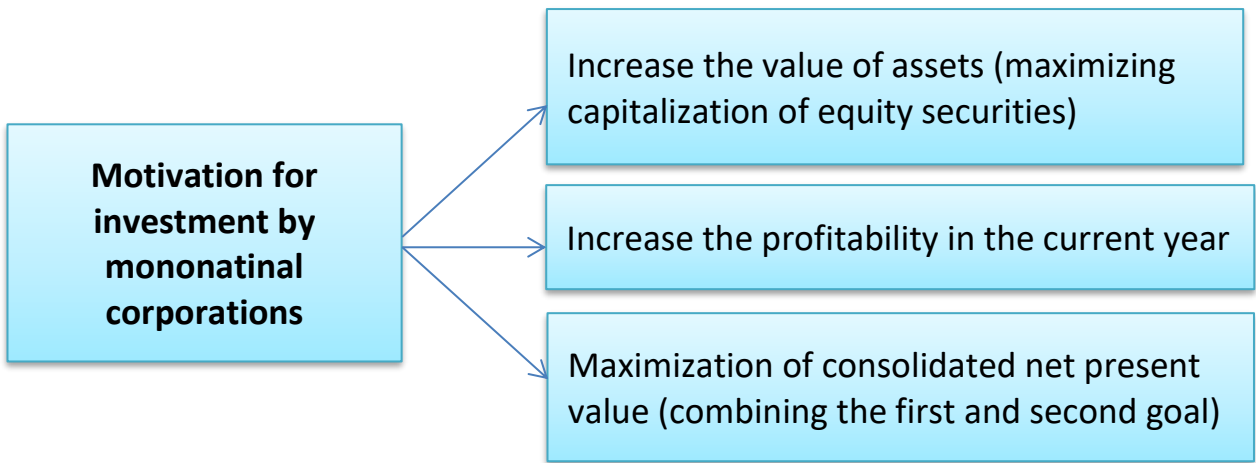


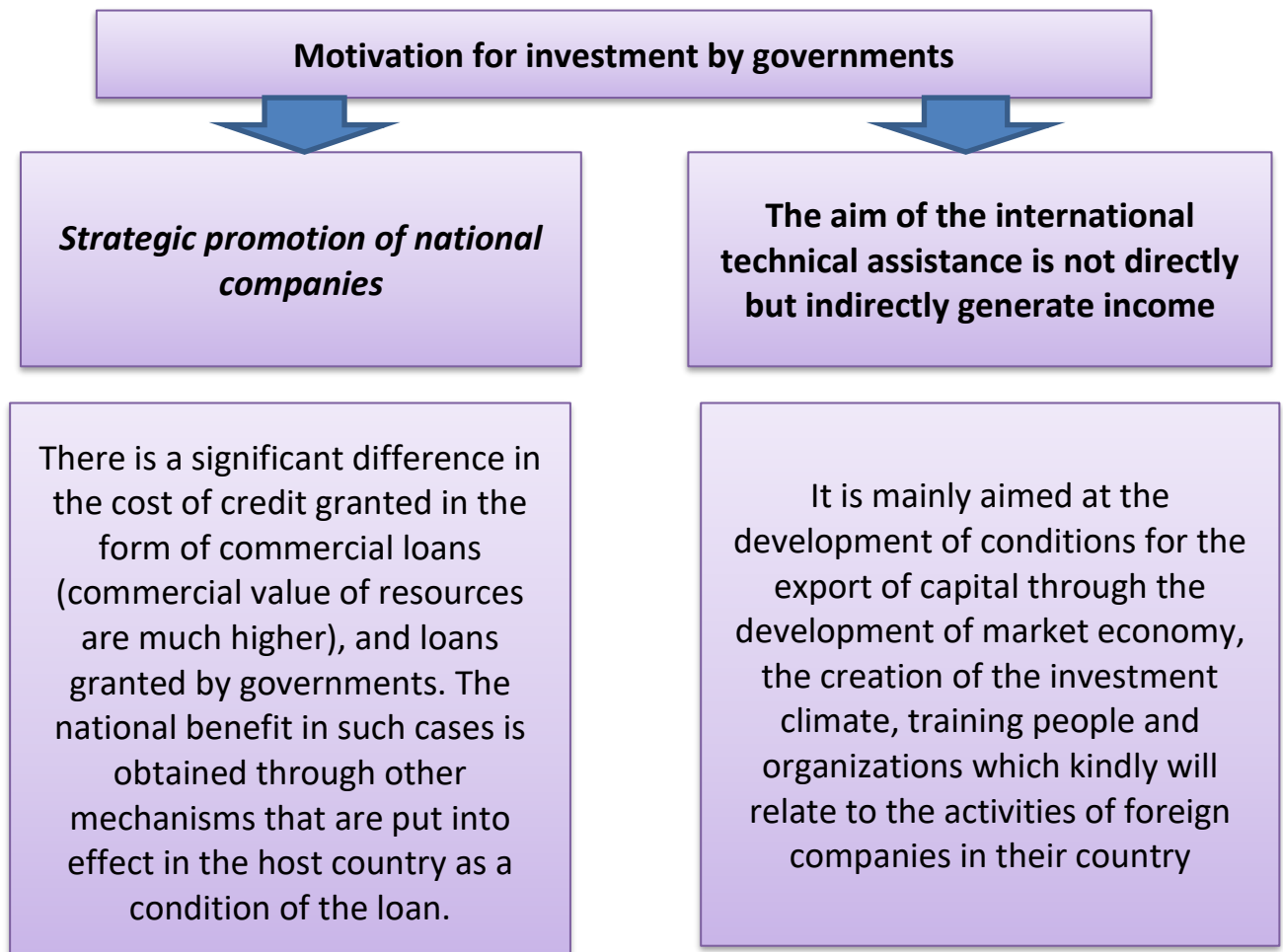
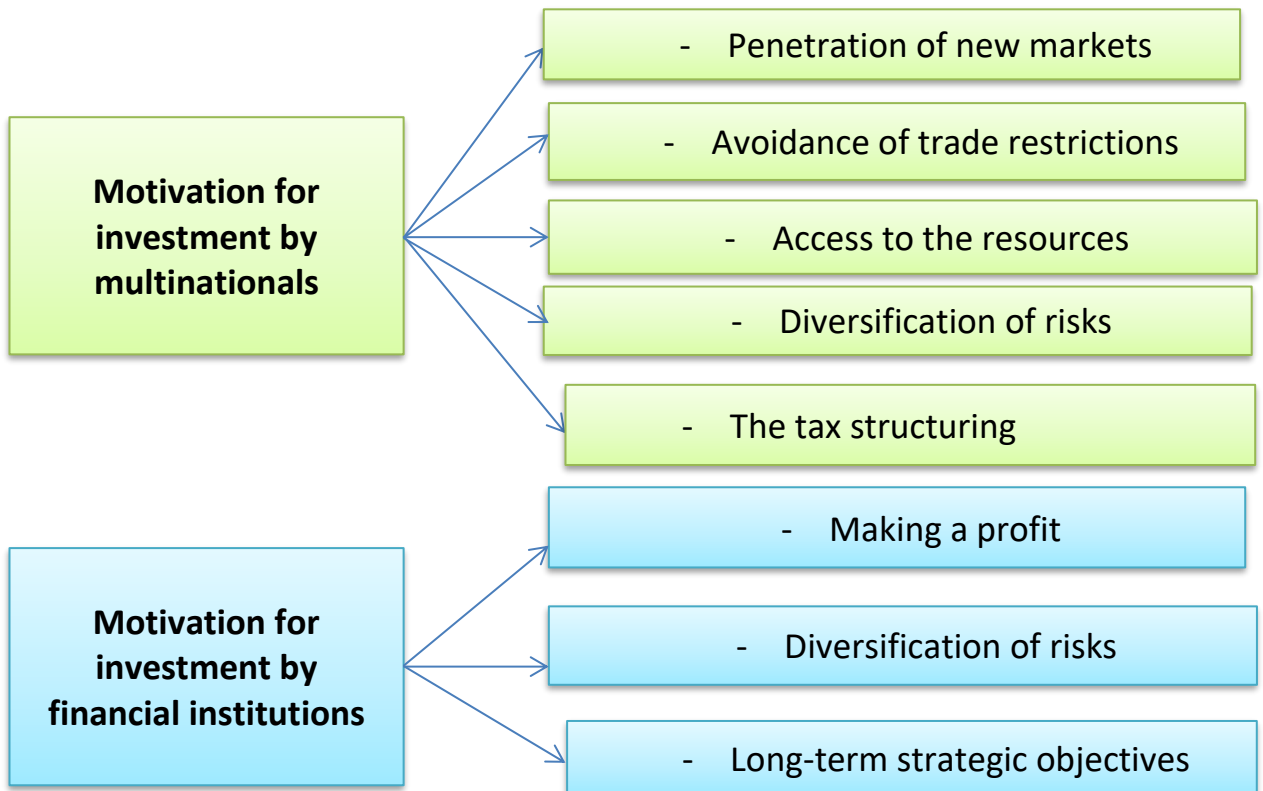


### Resources of investment entities

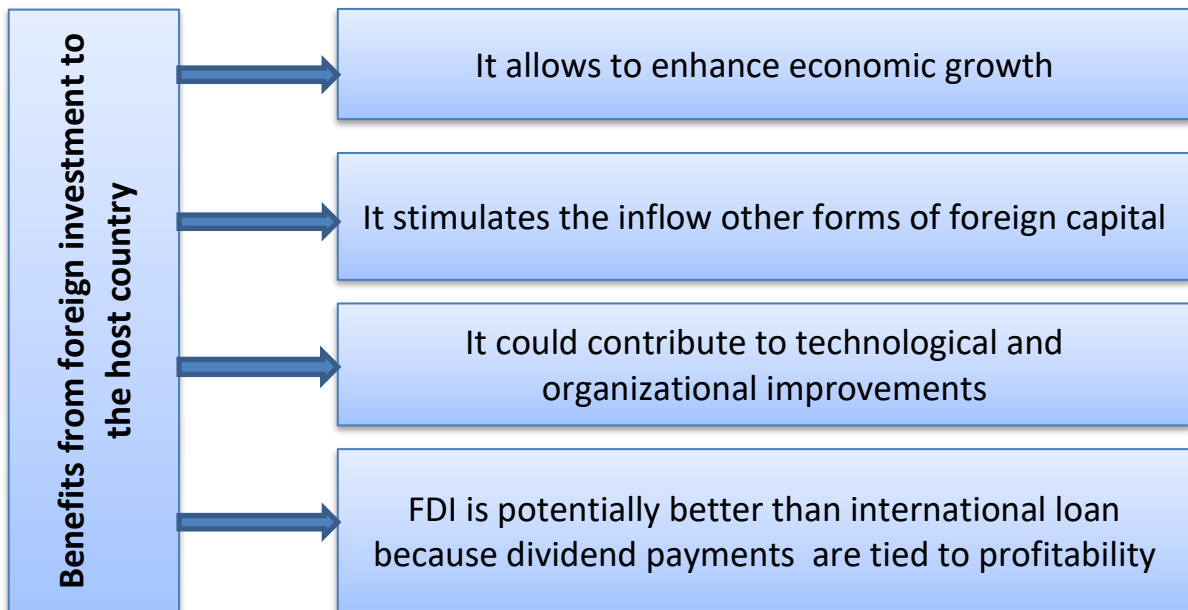
Investors	Resources	
	own (internal)	borrowed and attracted
Individuals	Savings, the unconsumed portion of individual income	—
Corporations	Company reserves, retained earnings, depreciation and other funds, other own funds (know-how, non-operating profits, etc.)	Funds raised through the sale of stocks, bonds, other securities, long-term loans and borrowings
State	Profits of state-owned enterprises, tax revenues, contributions to state social insurance funds, state reserves, credit and monetary issues, funds from privatization	Domestic and external loans (government bonds, treasury bills, etc.)



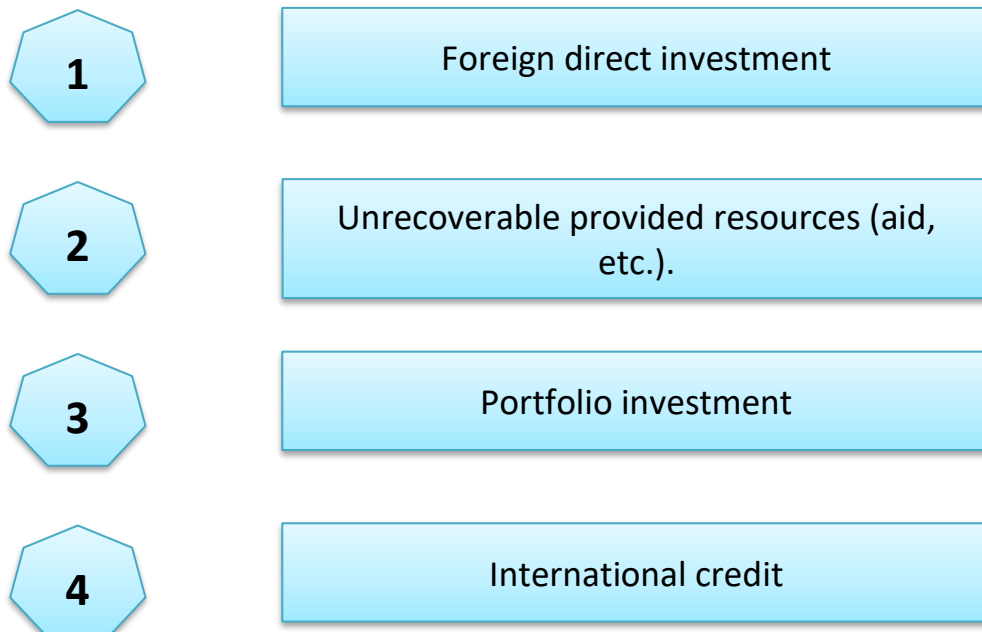




#### 1.4. The impact of international investment activity in developing based countries and host countries



#### *Priority involvement of different types of foreign capital*



## The impact of foreign investment on the economies of resident and recipient countries

Resident country		Recipient country	
Benefits	Disadvantages	Benefits	Disadvantages
<p>Revenue growth from investments by reallocating capital in the country in more profitable overseas.</p> <p>Increasing exports of goods, equipment, technologies, stimulating the production process.</p> <p>Stimulating innovation process.</p>	<p>The high degree of risk.</p> <p>The migration of labor.</p> <p>The slowdown in economic growth and country development through the transfer of capital abroad.</p>	<p>Stimulating the growth rate of the national economy.</p> <p>Proceeds of modern technology, machinery and equipment</p> <p>The creation of additional jobs.</p> <p>Increased competition in the country.</p>	<p>Lower income from investments as investor income is coming into the country resident.</p> <p>Ability revenues techniques and technologies are not new.</p> <p>The danger of dumping.</p> <p>The high cost of credit.</p> <p>Bankruptcy domestic producers due to a lack of competitiveness.</p>

### ***Tasks for control and self-control of knowledge***

1. Can shares of a company be a form and object of investment? Give examples that support your opinion.

2. According to the World Bank website (<http://data.worldbank.org/indicator/BX.PEF.TOTL.CD.WD/countries>), identify the leaders among net investor and net recipient countries. What, in your opinion, are the factors that determine a country's belonging to one or another group? Can it be said that developed countries, as a rule, are net investor countries, and developing countries are net recipient countries?

3. Evaluate which of the mobility options is characteristic of corporate capital in Ukraine and why.

## Chapter 2

### Direct and portfolio investments

#### Questions that reveal the content of the topic

- 2.1. The position and role of foreign direct investment (FDI). Motivation implementation of FDI. Forms of FDI
- 2.2. Investment risks associated with the placement countries
- 2.3. International portfolio investment: nature, types and values. Classification of securities in the international investment market

#### 2.1. The position and role of foreign direct investment (FDI). Motivation implementation of FDI. Forms of FDI II

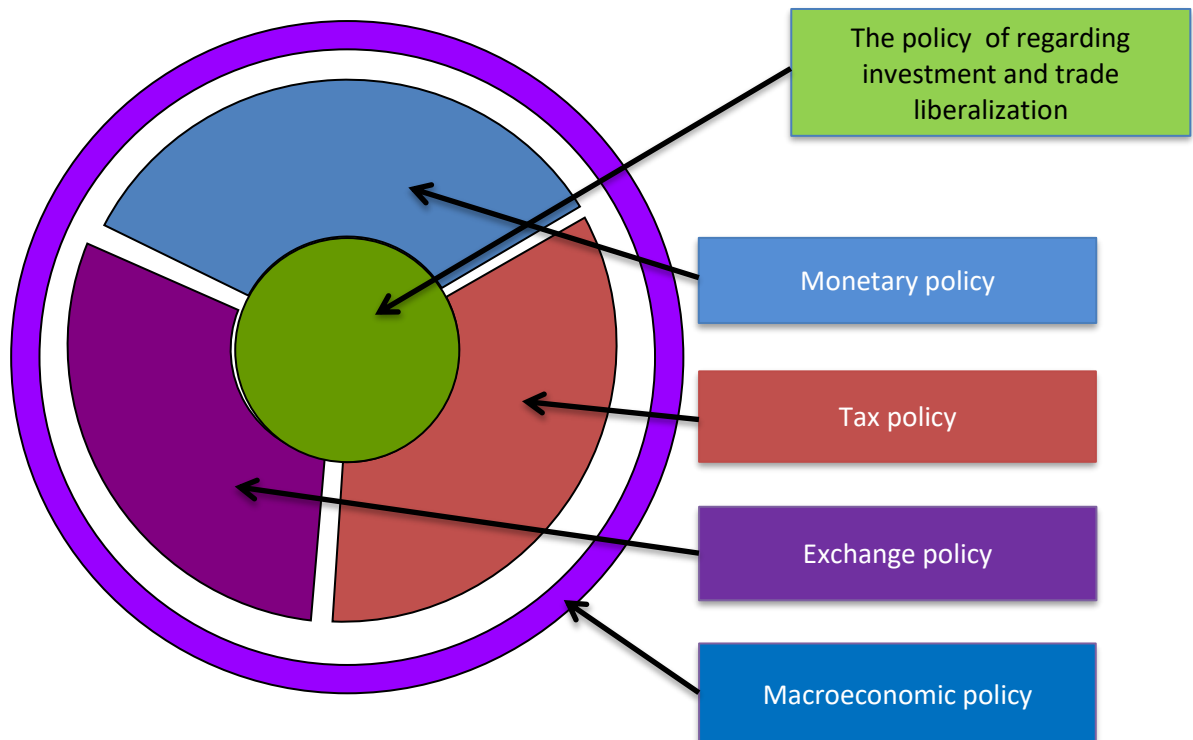
##### *The value of direct investment to the host country*

- Increasing exports of goods (\$ 1 of investment increases exports by \$ 2, according to the OECD);
- Increasing imports ( \$3 investment increases imports by \$ 1)
- Work creation (\$ 3,000-25,000 investments create 1 work position, according to Canadian researchers)

##### **New conditions for the movement of capital in the global economic system**

1. Further concentration of flows and accumulated foreign direct investment in countries with market economies.
2. The emergence of new agents in the capital market as exporters - developing countries
3. Tough competition for attracting foreign investment.
4. Reassessment of factors that allow countries to attract foreign capital
5. The preference for cross-border acquisitions and takeovers instead of creating new enterprises or firms.
6. Regulation of foreign investment flows, the behavior of investors and host countries on a bilateral and multilateral basis.

## ***Policy of attraction the foreign investments***



### ***Regulating measures the movement of FDI***

- trade policy
- competition policy
- antimonopoly policy
- industrial policy
- property relations regulating policy
- tax and customs policy
- incentives for lending
- provision of guarantees by the state
- monetary policy (the convertibility of the national currency, restrictions on transfer of dividends, royalties, etc.)
- price controls (fixing and differentiation prices, setting transfer prices)
- requirement to provide a certain percentage of exports of local components, etc.
- specific sectoral measures
- various procedural requirements

## Motives for FDI

**Productive and economic** (immediate goal is making profit more than in the based country);

**Marketing** (capture new product markets);

**Propaganda** (used by large transnational corporations to spread brand);

**Personal** (related to family or national ties);

**Environmental** (for the purpose of going beyond the country of environmentally hazardous activities)

## National priorities in attracting FDI

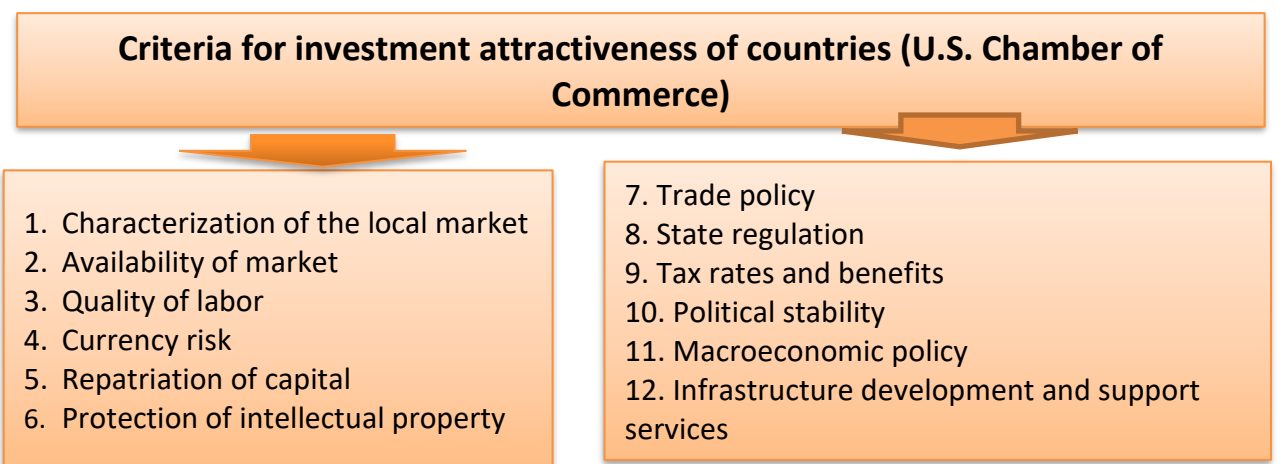
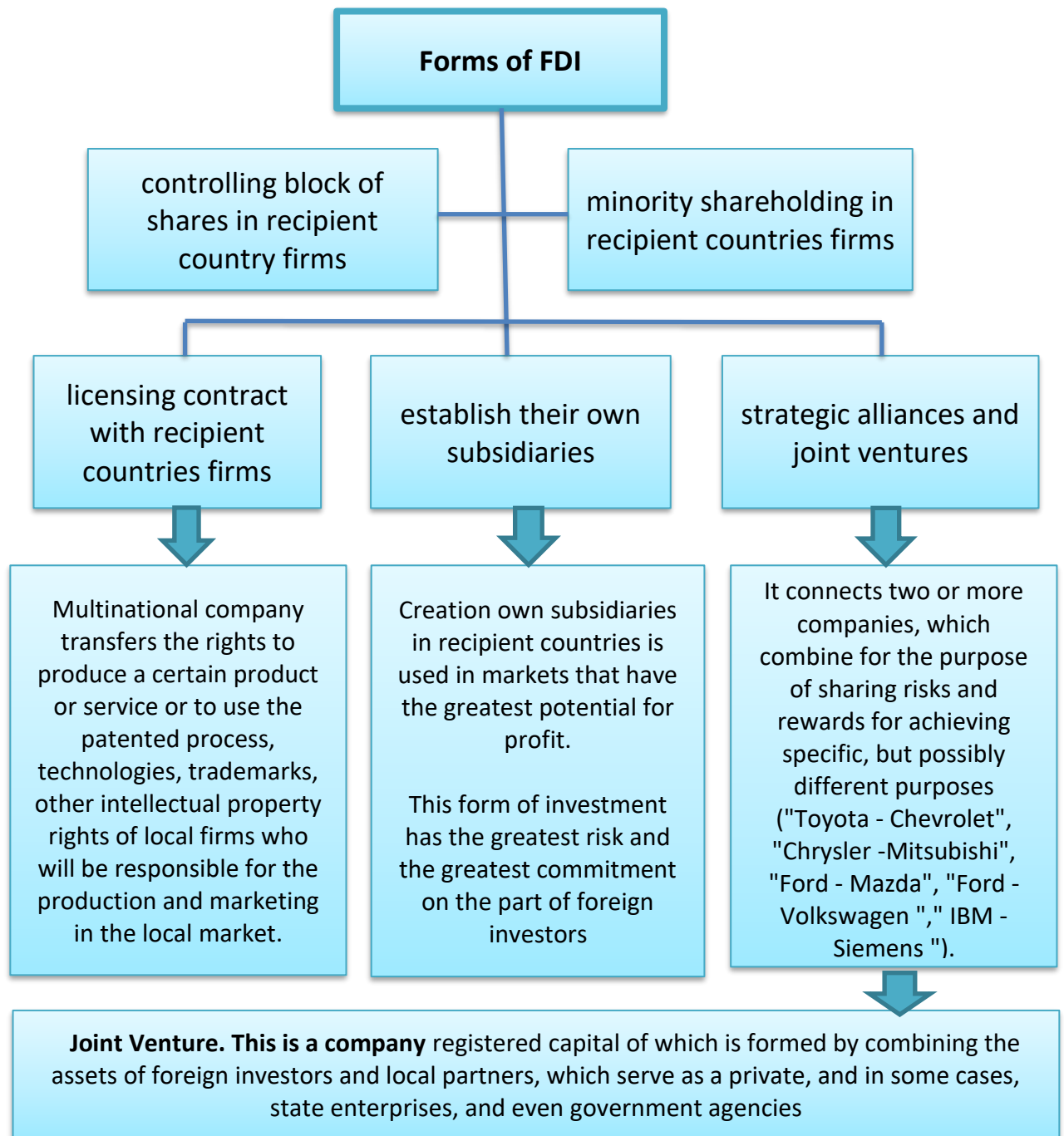
employment growth and social stability (France, the UK)

export development and transfer of professional experience (China)

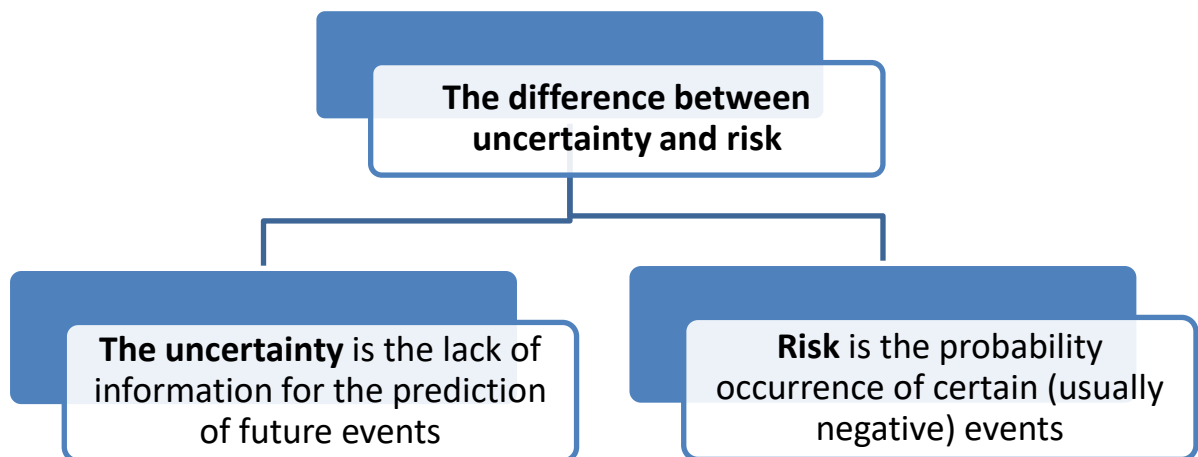
agriculture and mining industry development (Argentina, Australia)

resource development and the restructuring of the industry (Brazil, Chile, Venezuela)

IMF pressure (India, Philippines), the need for immediate capital injection (Mexico, Thailand, Indonesia).



## 2.2. Investment risks associated with the placement countries



Extent of risk	The fluctuation range of risk factor, %	Possible loss
<i>Risk-free investment</i>	0	There is no loss
<i>Allowable risk</i>		
minimal risk	Above 0 - 25	Partial loss of net income
increased risk	26 - 50	Total loss of net income
<i>Critical risk</i>	51 - 75	Complete or partial loss balance profit
<i>Catastrophic (unacceptable) risk</i>	76 - 100	Loss of own investor's funds, bankruptcy

### Methods of risk assessment

**Statistical.** It is determined by comparing the number of adverse events  $X$  to the total number of the same events:

$$E = (\text{Number of events } X / \text{Total number of events}) \times 100\%$$

***The method of expert estimates is determined by a survey of experts on the certain problem (degree of probability)***

*As a rule, the method includes methods of processing - rejecting the extreme and medium output estimates*

***Comparative.***

It is determined by comparing the risk for a given item with similar risk for other similar item

***Risks associated with the host country***

**Political**

- arising different types of administrative constraints of investing activity connected with the policy that country provides;
- inability to perform of economic activity as a result of hostilities, revolutions, worsening political situation in the country, nationalization, embargo, etc.;
- input delay (moratorium) on the external payments for an indefinite period as a result of emergency situations (strike, war, etc.);
- prohibition or restriction of converting local currency into the currency of payment.

**Economic**

- rate of inflation
- manufacturing GDP and GDP per capita;
- GDP growth;
- share of exports in GDP;
- the current system of taxation of business entities and salary;
- financial status of the investment project (industry or enterprise);
- the cost of renting land, tariffs, not enough coordinated work of customs services and others.

## Legal

- lack of favorable regime of the investment process,
- unreliability of government guarantees,
- lack of land ownership for foreign investor,
- inadequacy of the participation rules of foreigners in the privatization process,
- inadequate protection of intellectual property,
- -tax risk.

## Social

- the risk of strikes;
- high, for countries with below-average-income level, the tax rate on wages;
- inability to provide a living wage.

## Transport

- is associated with the transport of cargo by any mode of transport: rail, air, river and road.

It depends on the reliability of all modes of transport, the quality and length of roads, the level of crime on transport etc.

## Environmental

***depends on :***

- the possibility of environmental disasters and natural disasters in the region,
- extent of the damage area,
- its radioactive contamination,
- water quality and air

## Criminogenic

- racket,
- theft of property,
- fraud of investment or business partners,
- bribery of officials.

**Depending on the form of investment distinguish real and financial investment risk**

**Risk of real investment** (investment in capital contributions) is associated with unsuccessful choice of the construction project location, with interruptions in the supply of capital goods, a significant increase in prices for investment goods, choice of unskilled (unfair) contractor and other factors that delay the commissioning invested or reduction of income (profit) in its operation

**The risk of financial investment** (shares acquisition of privatized or other enterprises) is associated primarily with volunteer selection of financial instruments for investment; financial difficulties, unforeseen changes in investment conditions, direct deception of investors and others

**Credit risk**

- Arises due to the possible inability to repay debts on loans provided
- Is relevant for both the borrower and the lender
- Is reduced by an adequate assessment of the borrower's financial condition

**Liquidity risk**

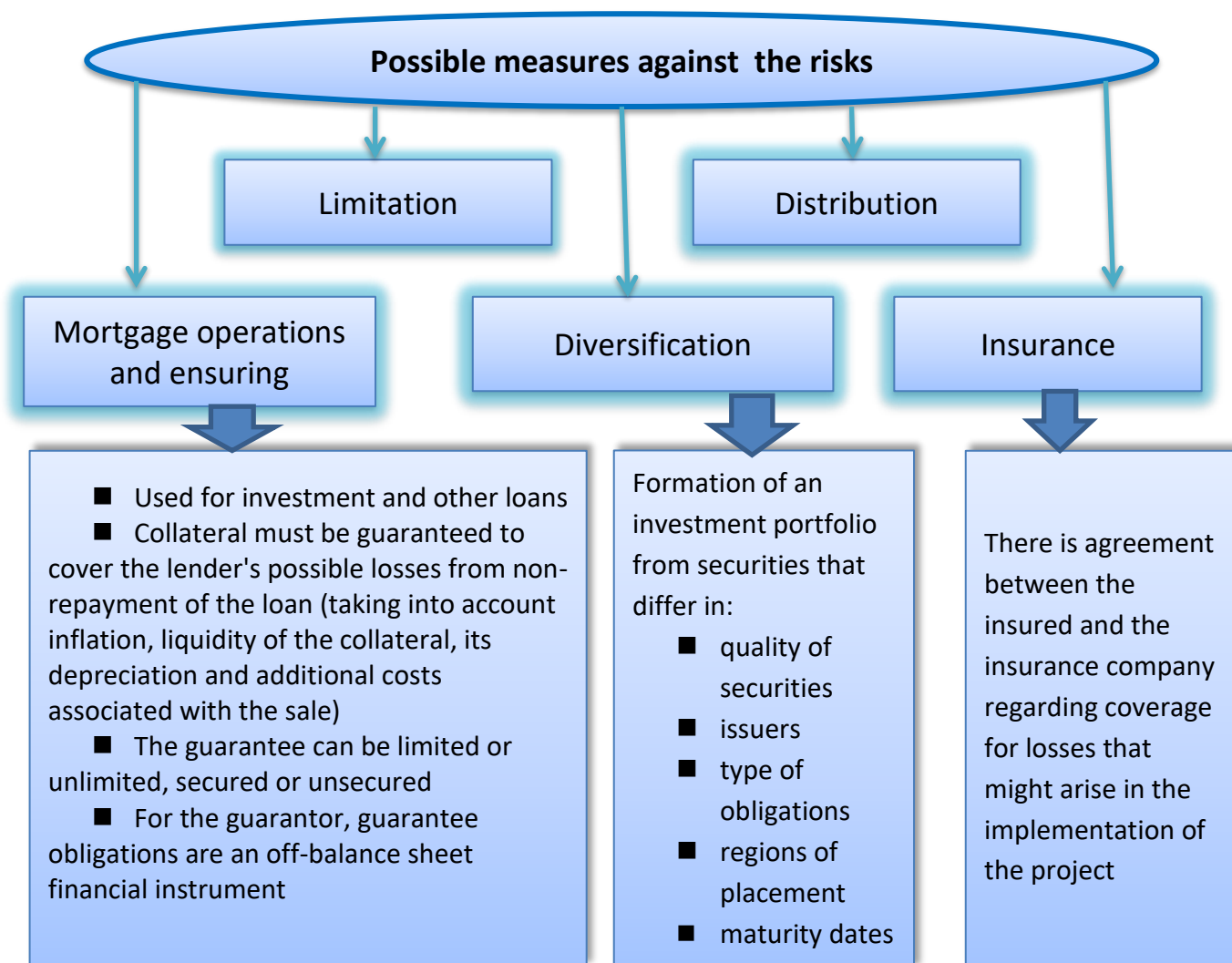
- is predefined uncertainty about the future rapid implementation of an asset for a stipulated price  
Liquidity and profitability of assets are often inversely proportional

**Currency risk**

- Arising because of the uncertainty of the future movement of exchange rates
- At its level of influence: balance of payments, government regulation, interest rates, inflation

**Portfolio risk**

- It is the risk of non-compliance of the project loan portfolio in the future, portfolio of securities or portfolio of real projects



### 2.3. International portfolio investment: nature, types and values. Classification of securities in the international investment market

Securities could be classified in many ways:

- **economic nature** (property - share; credit relations - a bond, note, promissory note);
- **type of law that is realized** (cash requirements – bond, bill, property rights - stocks, mortgage, bill of landing);
- **economic status** (stock and commercial);
- **material form** (impersonal documents, records accounts);
- **ownership** (public and private);
- **nationality** (national, foreign, international);
- **features of the production and circulation** (target orientation, turnover, profitability, transfer of property rights, the sequence satisfying the claims, procedure compliance maturity)

The basis of portfolio investments comprises equity and debt securities, but might also be derivative securities (derivatives)

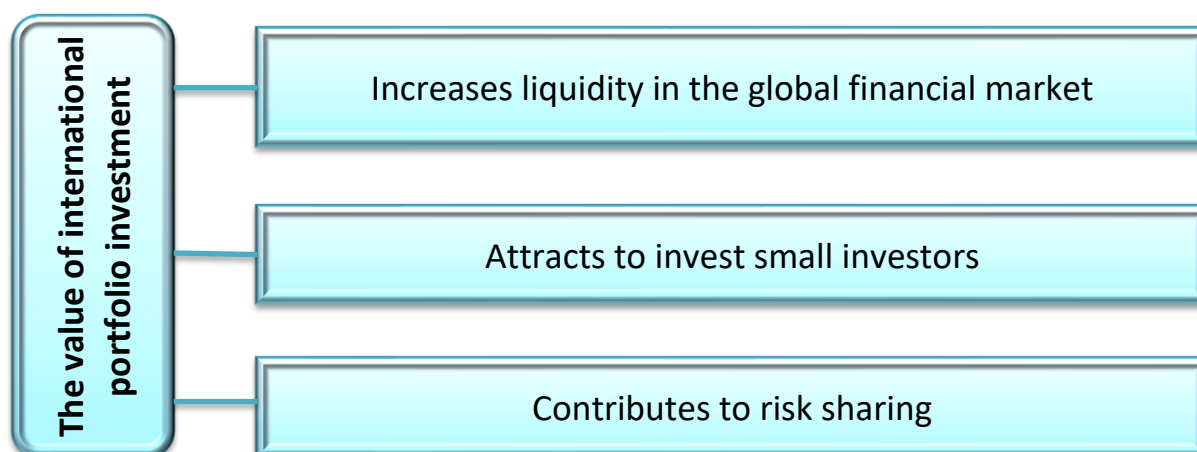
**The share** is equity security that entitles the holder to hold the share of profits and to participate in the management of a joint stock company

**Bond** is debt security that entitles the holder to receive from issuer the bond in a predetermined amount of money a pre-specified time

**Derivative securities (derivatives)**

- Forwards
- Futures
- Options

Investment characteristics	Share	Bond
Relations between the owner and the issuer	Property relations	Debenture stock
Participation in management	Yes	No
Form of income	Dividends	Interest
Source of payment	Net profit	The costs of the issuer
Procedure for payments	After tax	Before tax
Nature of payment	Unfixed without pre-determined terms	Fixed a pre-determined time
Displays the balance	Equity	Liabilities



### ***Tasks for control and self-control of knowledge***

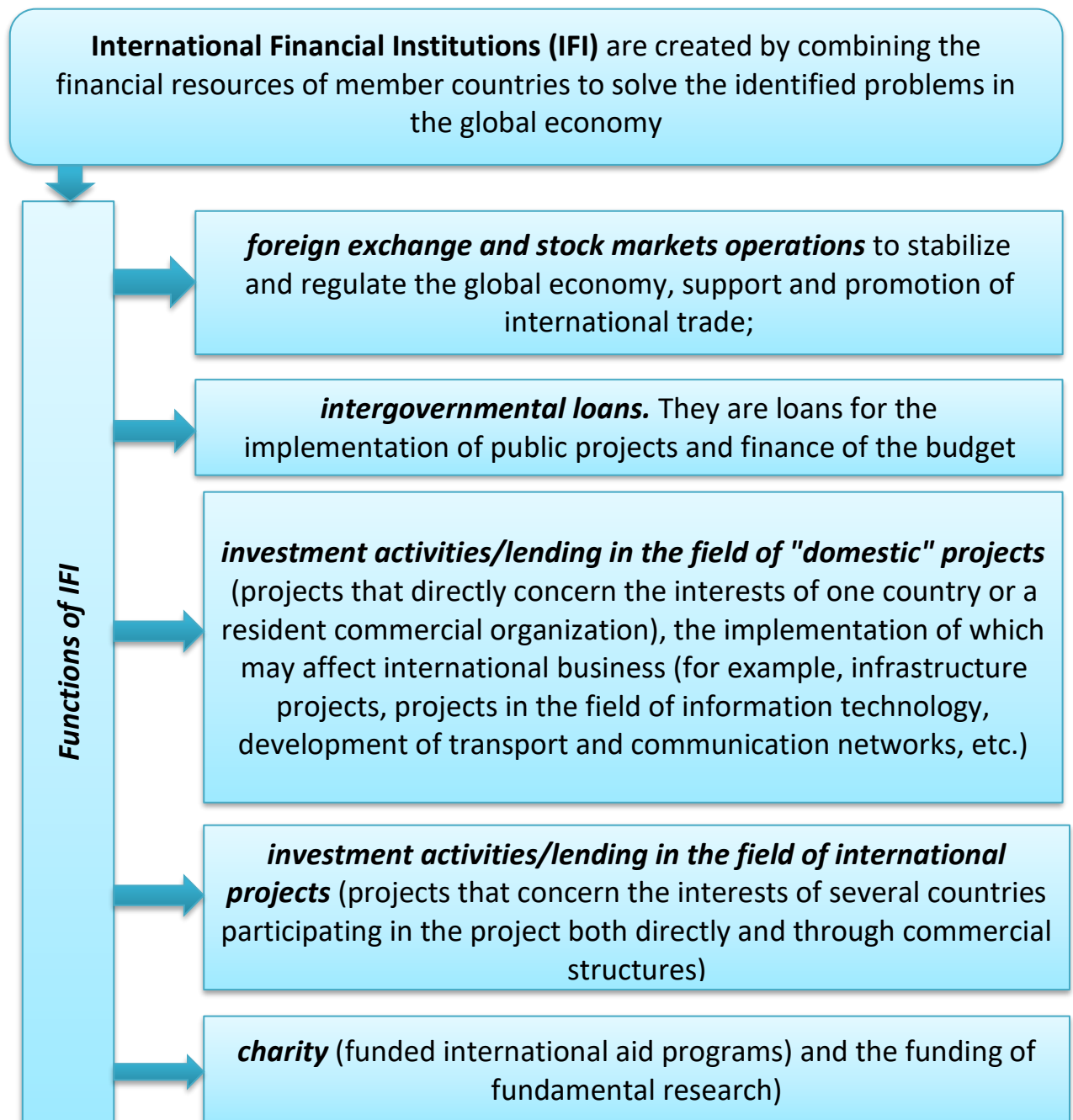
1. Based on OECD estimates, calculate how Ukraine's net exports will change if it receives \$30 million in foreign direct investment?
2. Based on data from the International Monetary Fund, the World Bank, and the CIA library, analyze what changes have occurred over the past five years in the group of leaders in terms of foreign direct investment and foreign direct investment? Explain the reasons for such changes.
3. Explain why in recent years the main priorities when choosing a country for investment have changed from profitability and market size to stability and prospects.
4. Use the indicators offered by the US Chamber of Commerce to assess the investment attractiveness of any country. Use international ratings.
5. Analyze how Ukraine's position in the Doing Business rating has changed over the past three years. What indicators have had the most significant impact on these changes? Do the changes you have identified give reason to speak of a change in the investment attractiveness of the Ukrainian economy?

## International Investment Infrastructure

### Questions that reveal the content of the topic

- 3.1. International security investors and special aspects of their activities
- 3.2. Investment funds in the international investment market
- 3.3. Investment activities of multinational corporations

### 3.1. International security investors and special aspects of their activities





**International Bank for Reconstruction and Development**

- Established in 1944 to provide assistance to Western European countries
- Since the 1950s, it has been reoriented to assist developing countries
- IBRD members – 189 countries
- The main governing body is the Board of Governors
- Votes are distributed depending on the size of the contribution
- Decisions are made by a simple majority of votes, and the most important es – by a qualified majority (85% of votes)
- Current management is carried out by the Directorate of 22 governors (7 appointed and 15 elected)
- IBRD capital consists of own and borrowed funds
- Loans are issued to the governments of participating countries or under government guarantees
- The spread is usually not less than 0.5%
- The usual lending term is 15 - 20 years
- IBRD's share in financing is up to 30%

**International Development Association**

- A subsidiary of the IBRD (173 members)
- Established in 1960
- Provides interest-free loans to the poorest countries
- Sources of funding: IBRD income, member contributions, loan repayments

## International Finance Corporation

- A subsidiary of the IBRD (184 members)
- Established in 1956
- Purpose: to promote private sector development in developing countries
- Sources of financing: contributions from participants, IBRD loans, repaid loans, funds raised on international markets

## Multilateral Investment Guarantee Agency

- Part of the IBRD group, but financially independent
- Established in 1988 (180 members)
- Objective – to encourage foreign direct investment in developing member countries to accelerate their economic growth

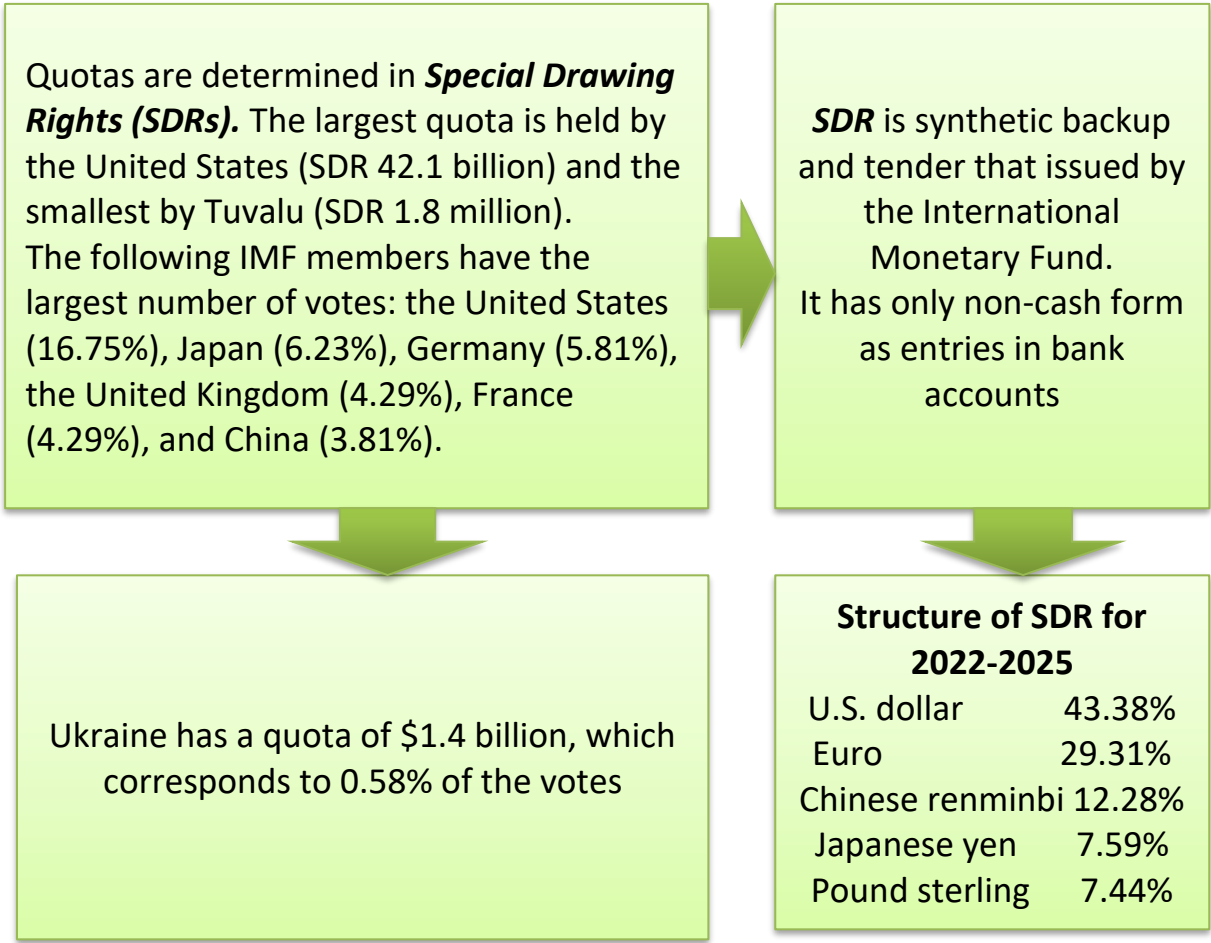
## International Center for Settlement of Investment Disputes

- Founded in 1966
- Members – 151 countries that have ratified the “Convention on the Settlement of Investment Disputes between States and Residents of Other Countries”

Chairman: President of the IBRD

## 2. International Monetary Fund (IMF)

Began work in 1946 to fulfill the terms of the Bretton Woods Agreement (1944)  
Is a specialized agency of the UN  
189 countries are members  
Decisions are made in accordance with quotas



## Special arrangements of IMF

- Systemic Transformation Fund
- Compensation and Contingency Fund
- Buffer Stock Financing System
- Emergency Assistance
- Structural Adjustment Fund

## 3. European Bank for Reconstruction and Development

- Established in 1991
- **The main objective is promotion the EBRD transition European post-socialist countries to an open, market-oriented economy and the development of private and entrepreneurial initiative**

### Transactions EBRD:

- lending (including co-financing) for development of production;
- investment in the capital;
- guaranteed placement of securities;
- facilitate access to capital markets by providing guarantees and other forms of assistance;
- resource allocation of special funds under agreements that determine their use;
- lending (including co-financing) and technical assistance during the reconstruction and development of infrastructure (including the Environmental Parties programs).

#### 4. Bank for International Settlements

- Created in 1930. Some of its functions were later taken over by the IMF.
- - assists central banks in placing foreign exchange reserves, serves as a forum for international monetary cooperation, acts as an agent or trustee in the implementation of international credit agreements, and also conducts major scientific research.
- The BIS members are central banks from 60 countries around the world (Europe, America, Asia, South Africa, Australia).
- The main forms of investment are deposits in commercial banks and the purchase of short-term securities, including US Treasury bills.
- The BIS also lends to other central banks at the expense of funds received as deposits from central banks
- The BIS does not have the right to lend to governments and open certain types of accounts for them. Real estate transactions are also not allowed.
- Ukraine is not a member of the BIS.

#### 5. Regional development banks

- *Inter-American Development Bank (ADB, Washington, was established in 1959).*
- *The African Development Bank (AfBR, Abidjan, was established in 1963).*
- *Asian Development Bank (AzBR, Manila, was established in 1965).*

**The European Investment Bank (EIB, Luxembourg)** provides loans for a period from seven to twenty years, and the developing countries, to forty years. The purpose of the EIB is the development of underdeveloped regions of the EU, reconstruction of enterprises, joint economic projects, the development of priority sectors;

**European Development Fund (EDF, 1958)** provides a collective EU policy towards developing countries, coordinated bilateral official development assistance programs in these countries

**European agricultural guidance and guarantee fund (1969)** helps create a common agricultural market ("Green Europe")

**European Regional Development Fund (ERDF, 1975)** provides loans at the expense of the common budget of the EU to even out regional disparities in Member States, as it numbers 25 poorest districts, the standard of living which is 2.5 times lower than in the 25 most prosperous countries

### 3.2. Investment funds in the international investment market

**The investment fund** is a type of investment company that receives money from the investors and their name invests this money in various securities

Investment fund could be considered as a financial product which investment company is exhibiting at public sale.  
In other words, an investment company provides investment portfolio, manages and sells ownership of the share of the portfolio with a tool, which is called the investment fund.

#### The benefits of investing through funds

- Diversification
- Professional management
- The initial value of the required investment could be very small

#### Types of Mutual Funds (by Investment Sector)

- Equity Funds
- Bond Funds
- Balanced Funds
- Money Market Funds

## Ordinary shares funds

**Growth funds.** Their goal is long-term capital gains

**Aggressive growth funds.** The aim is maximum possible capital increase

**Growth and profits funds.** They would like to have both long-term capital appreciation and receiving current income

**International funds.** The purpose and methods of work are similar to growth funds, except that achieving their goals, these funds invest their money in non-US securities

**Sector funds.** The basic idea of these funds is the follow. High profits could be obtained only in limited areas of the market. That is why these funds work in some designated areas

**Specialized funds.** Investment funds are directed to a specific geographical area or in specific areas to achieve specific investment objectives

**Index funds.** They include in its portfolio all stocks included in the estimated base specified index and examine the results of a certain segment or the entire market as a whole

## Bond funds

They invest their capital in bonds of different types and qualities and try to select the optimal value of securities with short, medium and long maturities.

Short-term bond funds buy corporate and treasury bonds with maturities from 1 to 3.5 years.

Mid-term funds invest from 3.5 to 10 years and long-term funds invest in obligations with a maturity of more than 10 years.

## Balanced fund

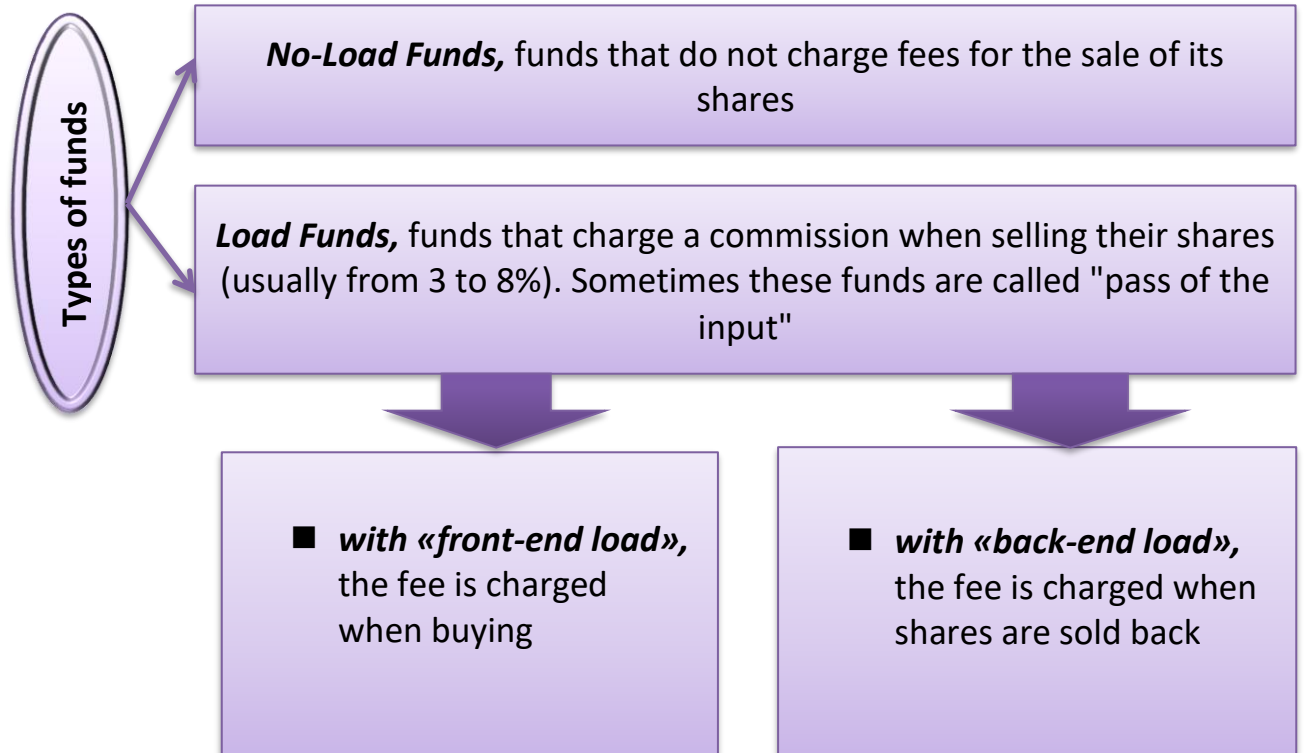
Investment objective of these funds is moderate capital appreciation and current income receipt.

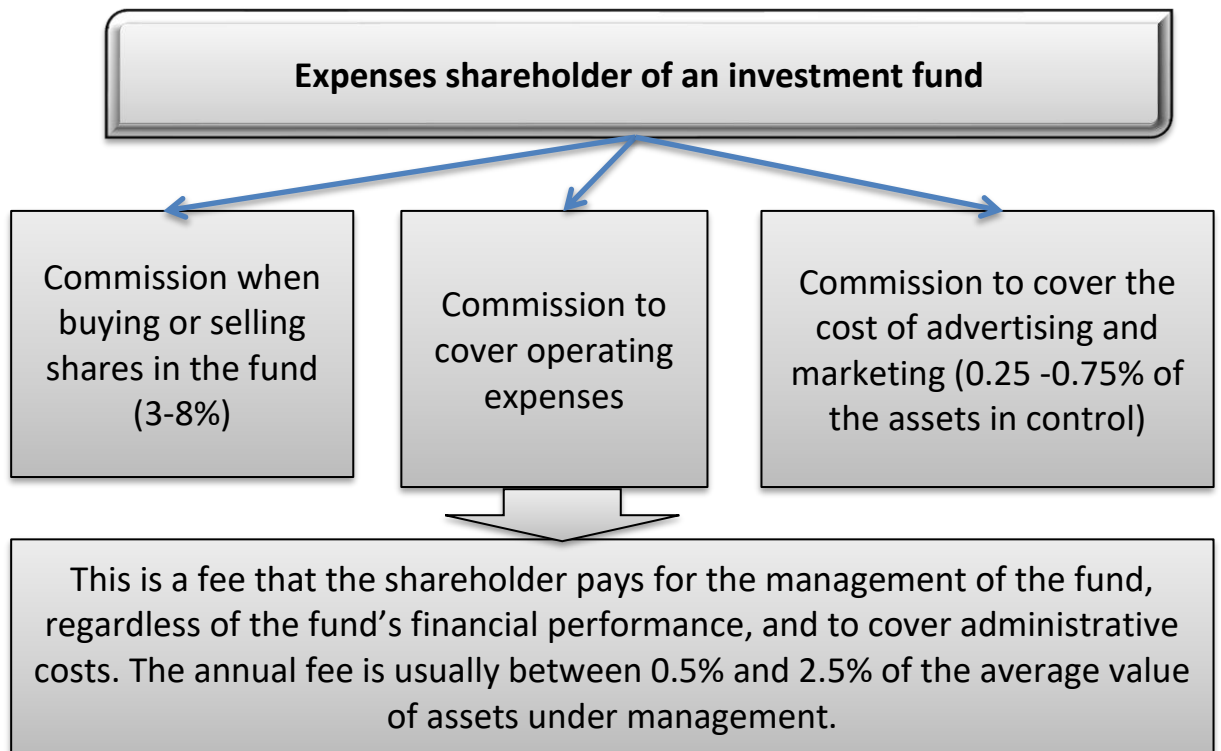
This goal is achieved with building a balanced portfolio of stocks and bonds. The share of bonds in the investment portfolio of the funds is usually 20-50% of the assets, depending on market conditions.

The portfolio consists of "blue chips" and bonds only high investment ranking recommended for long-term investments.

## Money Market Fundss

This type of mutual funds collect capital groups and investors to use them to purchase short-term financial money market instruments.





<b>Closed-end investment funds</b>	<b>Open-end investment funds</b>
Are created in the form of a legal entity - an open joint-stock company	Can be formed in various ways
The number of shares is fixed in the prospectus	The number of shares is not fixed
The number of shares does not change throughout the entire period of existence	The fund can continuously buy and sell shares or units
The fund does not have the right to redeem shares from shareholders	The purchase and sale of shares is carried out by the management company
Shares can be sold and bought through direct contracts between individuals or through financial intermediaries. These operations do not affect the fund's assets	The sale and purchase price of shares is based on the value of the fund's net assets

Closed-end investment funds	Open-end investment funds
The share price does not necessarily correspond to the value of the fund's net assets	The net asset value is based on the market price of the portfolio on each day
The fund's investment portfolio is managed by a management company, which is a separate legal entity	The fund is managed by a management company, which exists in the form of a legal entity
Shareholders have the right to vote in the management of the fund	Investors do not participate in the management of the fund

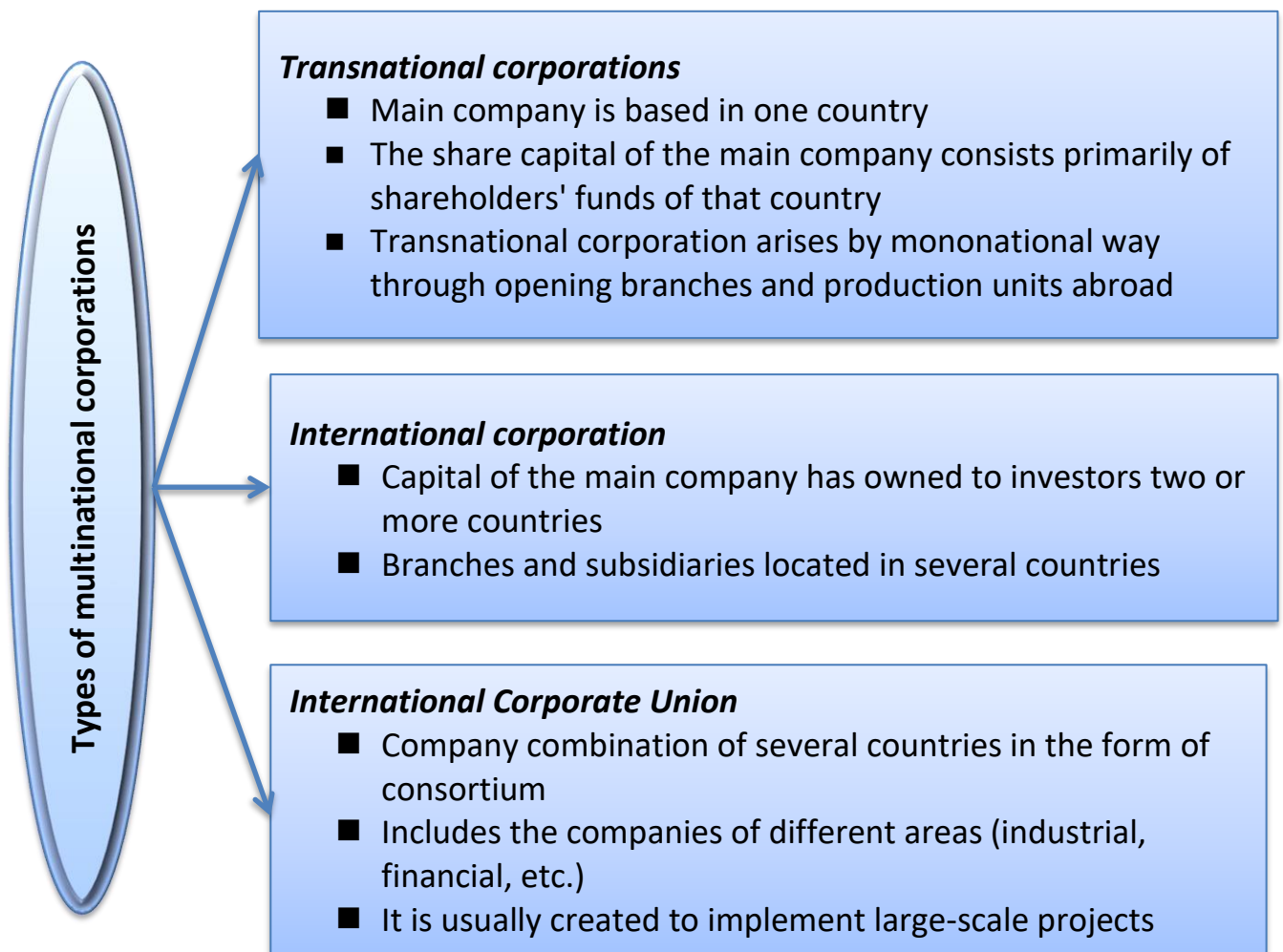
### 3.3. Investment activities of multinational corporations

**International Corporation** is a corporation that provides direct international investments from the based country in other countries



#### ***Advantages of multinational corporations over national***

- have the natural and human resources, as well as scientific and technical potential in other countries
- penetrate to the markets of other countries "inside", bypassing customs barriers in foreign countries
- overcome the limitations of the domestic market of the residence country, increasing the size of enterprises and scope of production to the most profitable level
- have the ability to transboundary maneuver of resources in case of fluctuations change
- have possibility to optimize the tax burden using the intracompany supplies



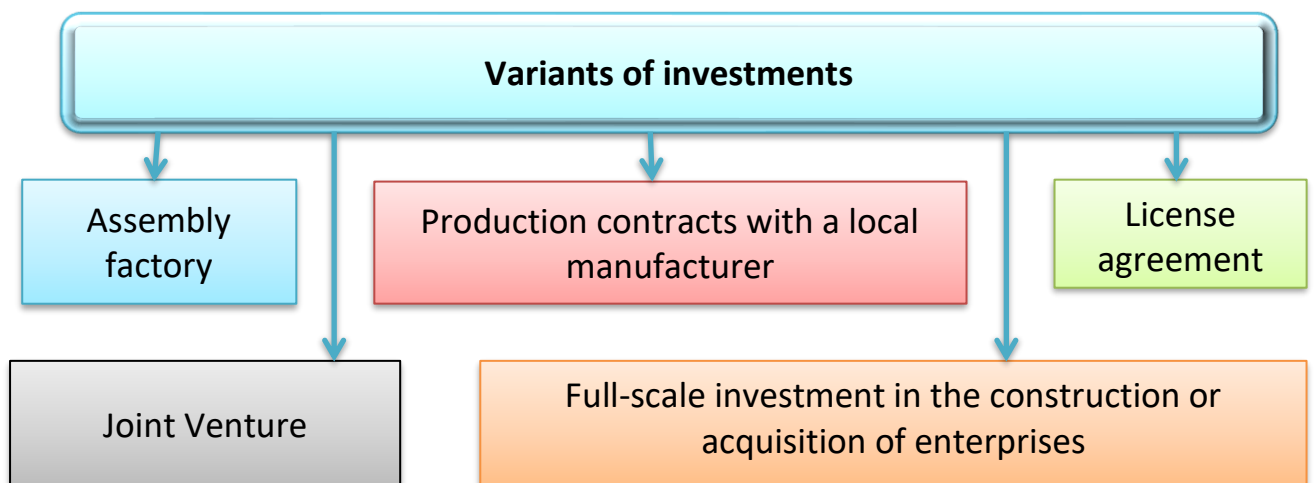
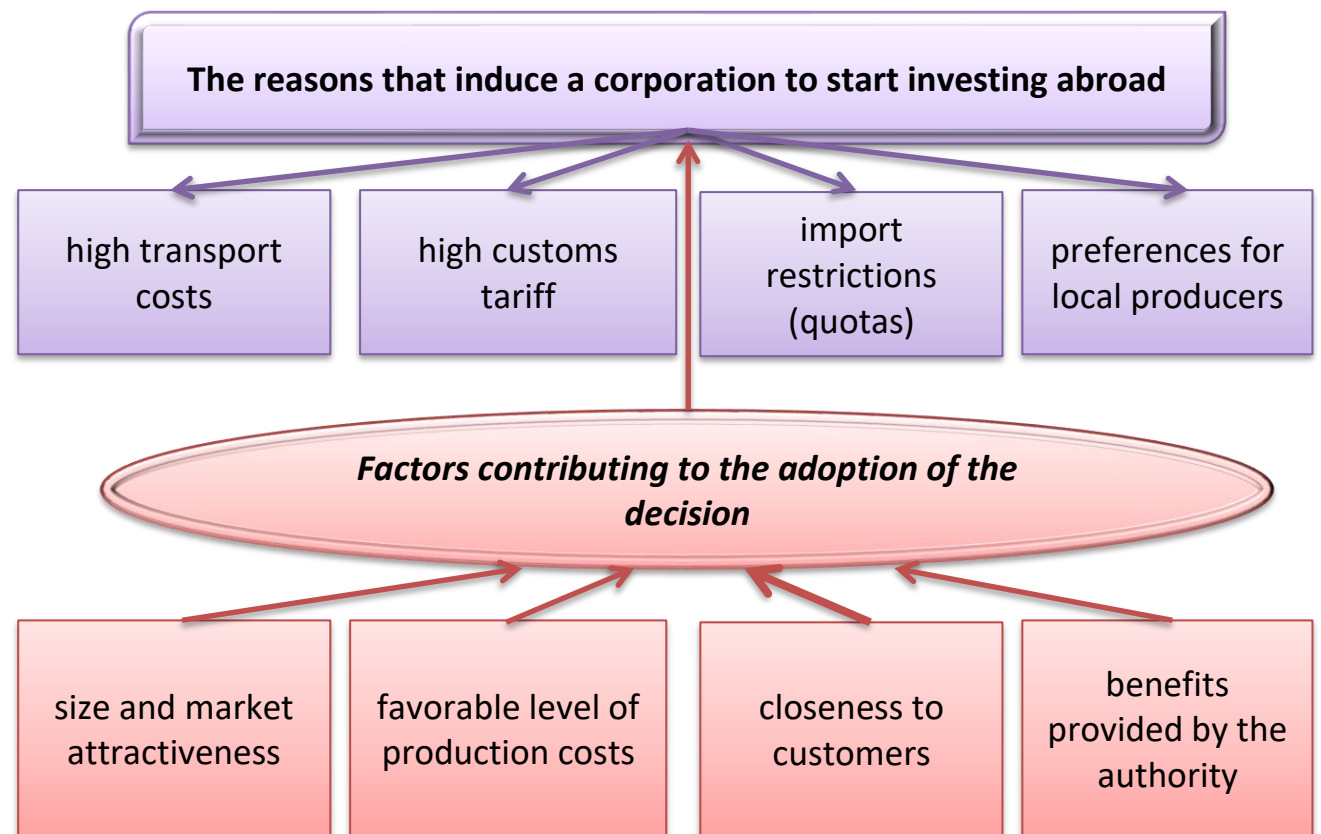
### The Largest Companies by Market Cap in January 2025

**Apple is the largest company in the world, with a market cap of \$3.68 trillion.**

**It's followed by Nvidia (\$3.54 trillion), Microsoft (\$3.15 trillion), Alphabet (\$2.36 trillion), and Amazon (\$2.36 trillion).**

**Eight of the 10 largest companies are in the tech sector, and they've all outpaced the S&P 500 over the past five years.**

[\*https://www.fool.com/research/largest-companies-by-market-cap/#:~:text=Apple%20is%20the%20largest%20company,and%20Amazon%20\(%242.36%20trillion\)\*](https://www.fool.com/research/largest-companies-by-market-cap/#:~:text=Apple%20is%20the%20largest%20company,and%20Amazon%20(%242.36%20trillion))



**Assembly plant** is a trade-off between direct exporting and foreign production. This route avoids the high transport costs and takes advantage of lower customs tariffs on unfinished products

**Production contracts** with local manufacturers provide an opportunity the firm to do without investment in production and without the cost of transport and customs. However, there is a problem of quality control, risk transfer the production know-how to foreign firms, which could become a competitor later. This risk is reduced if the main factors of competitiveness are brand image and marketing know-how.

**License agreements.** This method is more formal and long term. Firm (licensor) transfers to local firms patents, brands, names, "know-how" and provides technical assistance.

Firm-customer (licensee) pays an initial sum and royalties. Advantages of the agreement for both partners are the same for the franchise agreement. The problem is the difficulty of control and the lack of direct involvement of the company that sold the license.

**Joint Ventures.** Multinational firm invests part of the capital and has voting rights to manage the created company. This position provides better control over operations. Cooperation with local organization is a factor that facilitates integration into an unfamiliar environment.

**Direct investment.** The firm invests in the production in a foreign country by purchasing an existing or create a new enterprise. This is the maximum participation of firms in manufacturing abroad.

### ***Tasks for control and self-control of knowledge***

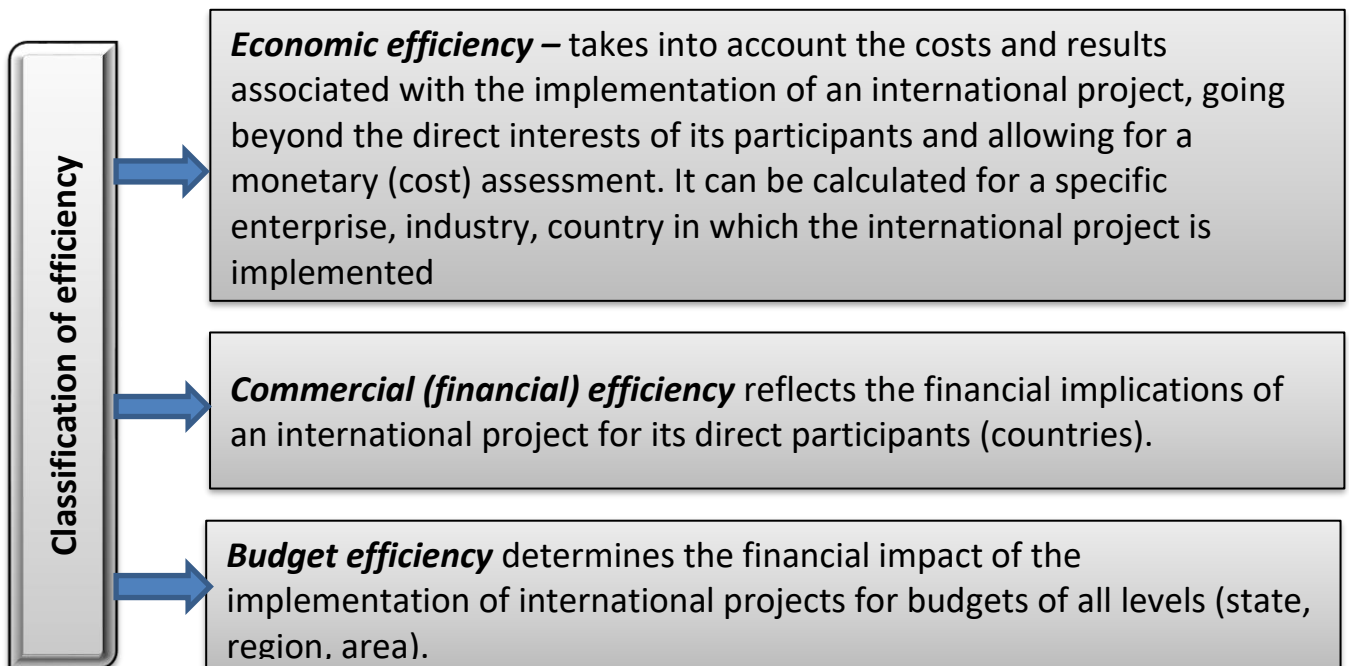
1. Analyze large investment projects in Ukraine, in the financing of which international financial organizations participated. What is the benefit of this form of attracting foreign funds for Ukraine?
2. Analyze which international financial organizations provide credit to private businesses. Under what conditions can you get loans from them?
3. Based on the analysis of the Law of Ukraine "On Joint Investment Institutions", demonstrate the features of the activities of investment funds in Ukraine?
4. Which investment funds (closed or open) would you advise your loved ones to deal with and why? What are the advantages and disadvantages of investing in each of them?
5. Analyze the consequences of TNC activities for the home country and the recipient country. Does Ukraine have its own TNCs?
6. Analyze which world-famous TNCs have invested in Ukraine? How does this affect the economic situation in our country?

## International business investment activity and economic efficiency

### Questions that reveal the content of the topic

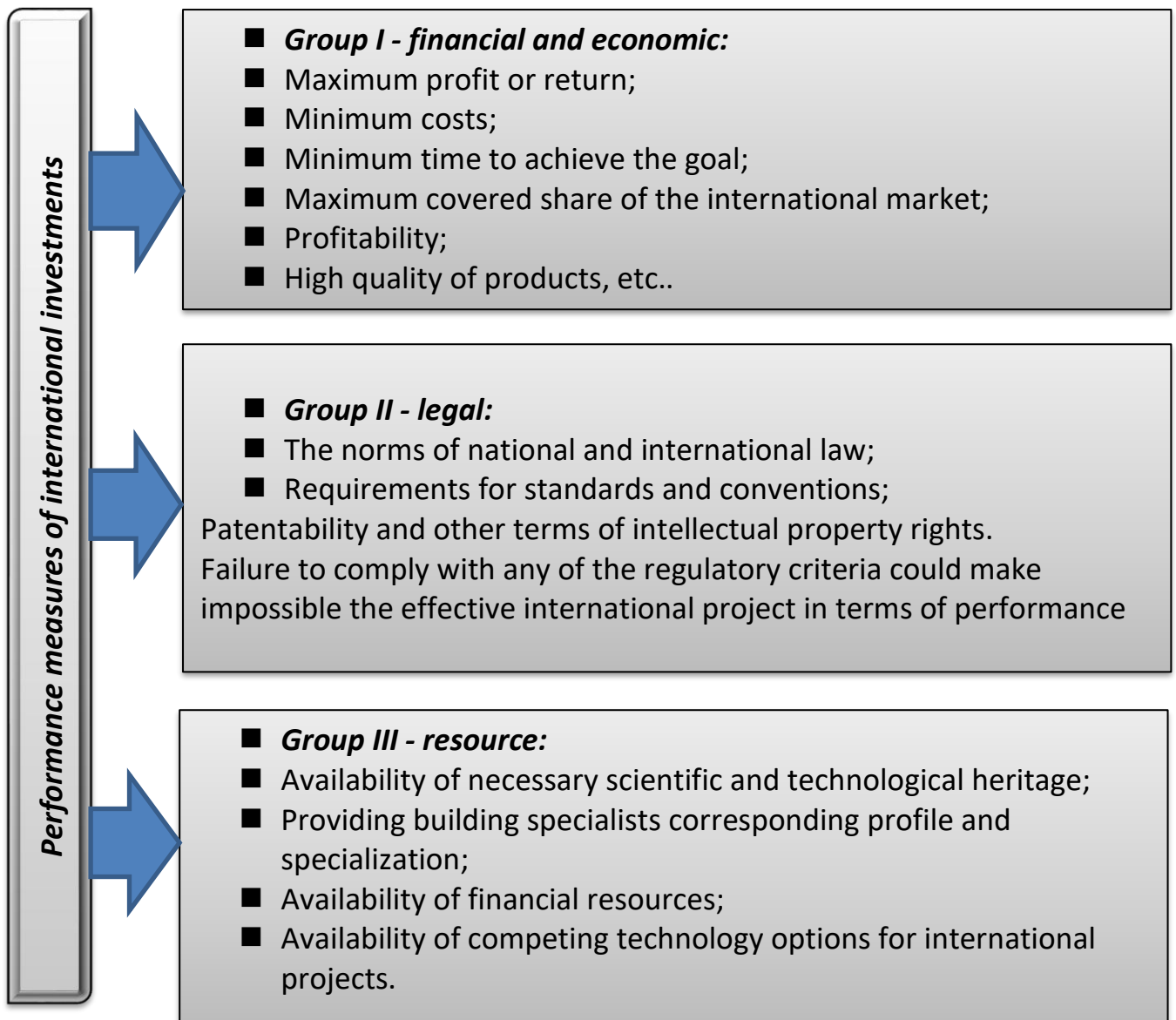
- 4.1. The effectiveness of international investment projects and its criteria
- 4.2. The choice of discount rate to substantiate the international investment project
- 4.3. Methods for evaluating the effectiveness of international investments
- 4.4. Estimated cost of building and the aggregate costs of international investment project

#### 4.1. The effectiveness of international investment projects and its criteria



#### **Justification of the effectiveness of international investment project is carried out after determinina**

- The goal of the international project (what, which circumstances is it caused, why does it need, where will be done and why?);
- The impact of the international project on current and future activities of member companies;
- The changes or immutability organizational structure, product quality, production volumes, ecology, etc.;
- Terms (periods) of achievement the results of implementation of the international project;
- Investors and investment volumes.



#### 4.2. The choice of discount rate to substantiate the international investment project

**Discounting is the determination of the value of cash flows that relate to future periods (future income at the present time).**

**Discount rate** reflects the minimum acceptable return on invested capital, where the investor will prefer the prescribed international project in comparison with an alternative way of allocating capital

## Ways of determine discount rate

- Based on the interest rate on deposits;
- According to bank lending rates;
- As the average cost of capital based on its structure, tax rates and other conditions;
- As compensation for the risk of loss, which is approximately equal to the already achieved level of return on equity (ROE) or the average rate of return on assets (ROA)
- Accepted at the level of interest rates on bonds of internal or external loan;
- Conforms the interest rate on long-term bonds of joint-stock company;
- Based on the cost of attracting capital, reflecting the stock market assessment of the possible future risk levels for operations of the company;
- Establishment of a differentiated set of barrier factors (discount rate) are mitigated by less risky project decisions and increase at high risk investors;
- The discount rate is considered as the criterion of annual percent return on invested capital and it is located in the depending on the bank interest rate:

$$d(t) = r(t) / (1 + r(t))$$

where  $d(t)$  – discount rate, the share of units;

$r(t)$  – interest rate (rate of return), the share of units.

Rate  $d(t)$  is chosen as a basis of comparison is amount that is returned, and  $r(t)$  - is investigated the initial amount of investment funds;

- The individual rate of return, which is formed on the basis of aggregate impact of several factors;
- Alternative rate of return which is formed on other possible international investment.

If payments are made at constant prices (in UAH terms), the discount rate in Ukraine are better taken as ***deposit rates for legal entities***.

**The most commonly used formula for calculating the discount rate is:**

$$i = (1+Hn) \times (1+\pi) \times (1+rk) - 1,$$

where  $i$  – the discount rate:

$Hn$  - minimum guaranteed real rate of return in constant prices (deposit rate for legal entities);

$\pi$  – inflation;

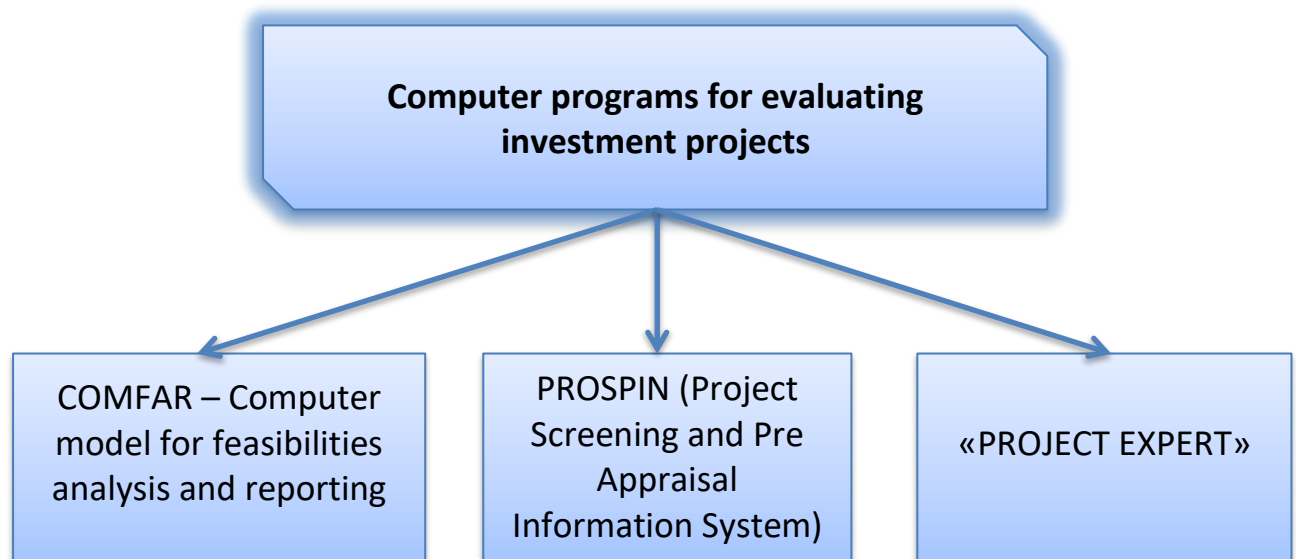
$rk$  – risk-adjusted.



**The discount rate allows us to estimate income of future periods based on today's value of money**

### 4.3. Methods for evaluating the effectiveness of international investments

**Methods for assessing the international investment** are ways of determining the appropriateness of long-term capital investment in various objects (projects, events) in order to assess the prospects of return and payback.



## Methods for assessing the international investment:

### 1. Net present value – (NPV)

If the international project involves a single investment::

$$NPV = \sum_{k=1}^n \frac{P_k}{(1+i)^k} - I$$

where n - number of years of sale (term) international project;

k – number of years of implementation of international project (1, 2, 3... , n);

$P_k$  - income (cash inflow) in k-th year of implementation of the international project;

i – discount rate, share unit.;

I - amount of one-time investment (cash outflow).

If it planned consistent international investment:

$$NPV = \sum_{k=1}^n \frac{P_k}{(1+i)^k} - \sum_{j=1}^m \frac{I_j}{(1+i)^j},$$

or

$$NPV = \sum_{k=1}^n \frac{P_k}{(1+i)^k} - \sum_{j=1}^m \frac{I_j}{(1+\pi)^j}$$

where m – number of years of international investment;

j – years of international investment (1, 2, 3, ....., m);

$I_j$  – investments volume in j-year of the international investment;

$\pi$  - estimated average annual rate of inflation.

If  $NPV > 0$ , the international project should be adopted because the cost (value) of the company will increase, the stock price will increase.

If  $NPV < 0$ , the international project should be rejected.

If  $NPV = 0$ , the international project is not profitable or unprofitable.

## 2. PI (profitability index):

With a single investment:

$$PI = \left[ \sum_{k=1}^n \frac{P_k}{(1+i)^k} \right] / I$$

With consistent international investment:

$$PI = \left[ \sum_{k=1}^n \frac{P_k}{(1+i)^k} \right] / \left[ \sum_{j=1}^m \frac{I_j}{(1+i)^j} \right],$$

or

$$PI = \left[ \sum_{k=1}^n \frac{P_k}{(1+i)^k} \right] / \left[ \sum_{j=1}^m \frac{I_j}{(1+\pi)^j} \right]$$

If  $PI > 1$ , the international project should be accepted.

If  $PI < 1$ , the international project should be rejected.

If  $PI = 1$ , the international project is not profitable or unprofitable

## 3. IRR (internal rate of return).

With a single investment IRR is the solution of the equation:

$$\sum_{k=1}^n \frac{P_k}{(1 + IRR)^k} = 1$$

With consistent international investment IRR is the equation:

$$\sum_{k=1}^n \frac{P_k}{(1 + IRR)^k} = \sum_{j=1}^m \frac{I_j}{(1 + IRR)^j}$$

The value of IRR reflects the upper limit of the allowable level of bank interest rate or rates to attract financial resources (cost of capital - CC), the excess of which leads to loss of international project.

If  $IRR > CC$ , the international project should be adopted.

If  $IRR < CC$ , the international project should be rejected.

If  $IRR = CC$ , the international project is not profitable or unprofitable.

**4. Period (term) international investment payback– PP (payback period method)**, i.e. the period of time during which the expected return on investment from the revenues derived from the sale of international investment project.

Outcomes and costs associated with the implementation of the international project could count with and without discounting.

**A) static (simplified) payback period:**

$$PP = \frac{I}{P_k}$$

where  $I$  – value of single investment funds;

$P_k$  – annual (average) net income from the international investment.

**B) dynamic (discounted) payback period..**

Discounted payback period (DPP) for income that could be represented as ordered sequences (annuities), i.e. annually discrete revenue, it is on the equity investment amount to the present value of annuity:

$$I = P_k \times \frac{1 - (1+i)^{-DPP}}{i}$$

Here:

$$DPP = \frac{-\ln \left(1 - \frac{I}{P_k} \times i\right)}{\ln(1+i)}$$

If the payback period of the international project is bigger than the accepted limits, it is removed from the list of possible international investment projects.

**5. Efficiency ratio of international investment, or accounting rate of return–ARR (accounting rate of return).**

This method is called the method of accounting return on international investments (return of investment).

The average rate of international project profitability - ARR - is the ratio of the average annual future net income (profit) on investment to half the amount of initial investment.

ARR defined by the formula:

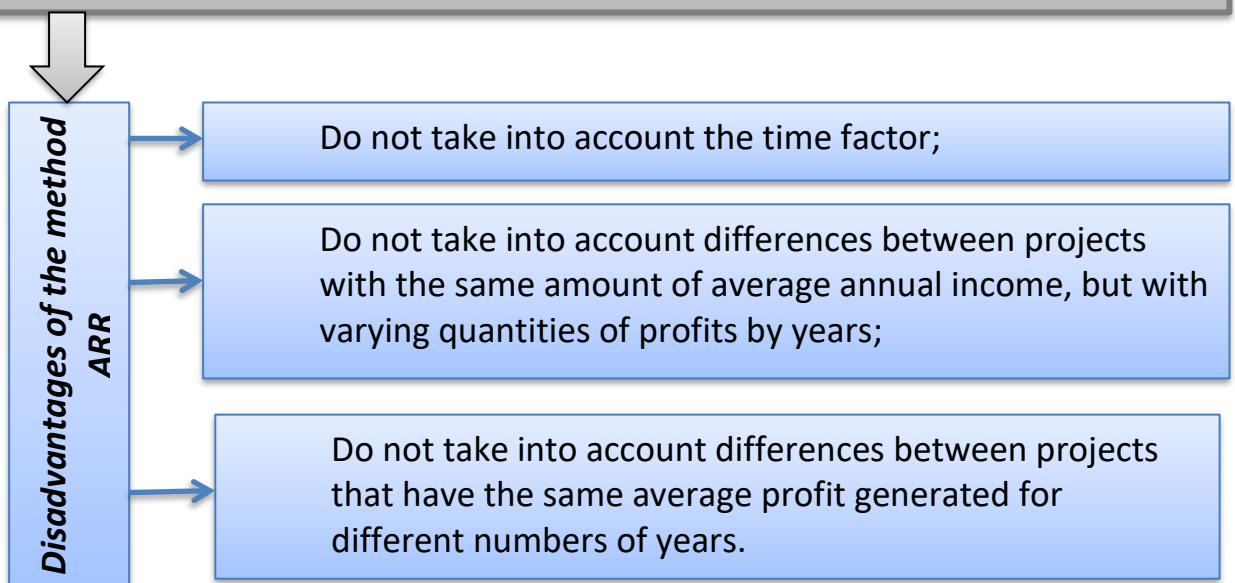
$$ARR = \frac{\frac{1}{n} \times \sum_{k=1}^n P_k}{I/2} \times 100\%$$

where n – period of implementation of international investment project;

k – years of implementation of international project(1,2,3,...,n);

P<sub>k</sub> – income (receipts) in k-the year of implementation the international project;

I – amount of one-time investment (cash outflow).



**4.4. Estimated cost of building and the aggregate costs of international investment project**

**The calculation of future costs and revenue are estimate.** The international investment planning estimate, on the one hand, determines the cost parameters expenses, and the other - an instrument of control and analysis of their use.

**Initial data for compilation construction cost estimate are:**

- List of designed buildings and structures;
- Drawings and other graphics with explanatory notes to them;
- Cost calculation;
- Specification of machinery and equipment, rigging (gear) and materials, equipment, tools and implements of production (equipment) required for object functioning of international investment;
- Current rates, tariffs on transportation services, directories, budget and regulatory materials, overheads standards.

***The estimated construction cost is the amount of all costs associated with the construction (reconstruction) of the object of international investment, or cost of construction products. It is defined by the formula:***

$$ECC = CCW + CEC + CIC + CUF,$$

where ECC – estimated cost of construction;

CCW – cost of construction works;

CEC – costs for equipment, instruments, tools, equipment required for facility construction and operation of its installation;

CIC – other costs associated with the construction (design, content management of the company, which is under construction);

CUF - costs allowance for unforeseen work.

**Estimated value of construction works is divided into:**

- **Direct costs**, which is directly related to the implementation of IP.
- **Overhead**, which are designed for the organization, management and maintenance of building work.
- **Planned savings** (NPL) or the estimated profit designers and contractors, set as a percentage of the amount of direct and overhead costs. Their value must take into account the tax rates.

***To determine the estimated project cost of international investments comprise the following types of estimates:***

- - Summary estimates or the estimated combined calculation that determines the overall cost of the work in accordance with the technical project;
- - Estimates for individual objects and types of work, purchase of equipment and its installation;
- - Estimates for certain types of costs;
- - Calculation of the materials cost, transportation and other costs;
- - Estimates for search of work;
- - Local and objective estimates.

***Tasks for control and self-control of knowledge***

1. Investment amount – 1 million UAH. Estimated payback period – 1 year. Deposit rate for legal entities – 20% per annum. Expected inflation – 5%. Risk adjustment – 10%. It is necessary to calculate what amount of income the investment project should bring in order for it to become attractive?

2. TNK decides on the advisability of investing funds in the amount of 900 thousand UAH, which will be returned in equal installments of 400 thousand UAH. over 3 years. The deposit rate for legal entities is 8% per annum, and the inflation rate is 2% per year. The risks are 0. Determine whether this project is effective?

3. Determine using the “payback period” indicator, which of the projects is more effective. The amount of investment in project A is 42,000 euros, in project B – 38,000 euros. The implementation period of the international investment project A is 5 years, B is 3 years. The net present value of project A is 39,000 euros, and of project B is 36,000 euros.

4. A transnational corporation was offered to invest \$600,000 for 3 years. The investment will be returned in equal installments of \$300,000 annually. The inflation rate is (I) 2% annually. The risk of international investments (R) is estimated at 4%. Using the NPV indicator, determine which option is better: to invest funds in this project or to place them on deposit at 9% per annum?

5. You have the following information about an international investment project. The total initial investment is \$2,500,000. The deposit rate for legal entities is 8%. Expected inflation is 3%. Possible risk is -3%. Total revenue: Year 1 – \$1,800,000; Year 2 – \$2,400,000; Year 3 – \$2,600,000; Year 4 – \$2,700,000. Total operating expenses: Year 1 – \$900,000; Year 2 – \$1,200,000; Year 3 – \$1,300,000; Year 4 – \$1,300,000. Income tax rate – 15%. Calculate the NPV for this project and assess its attractiveness for the investor.

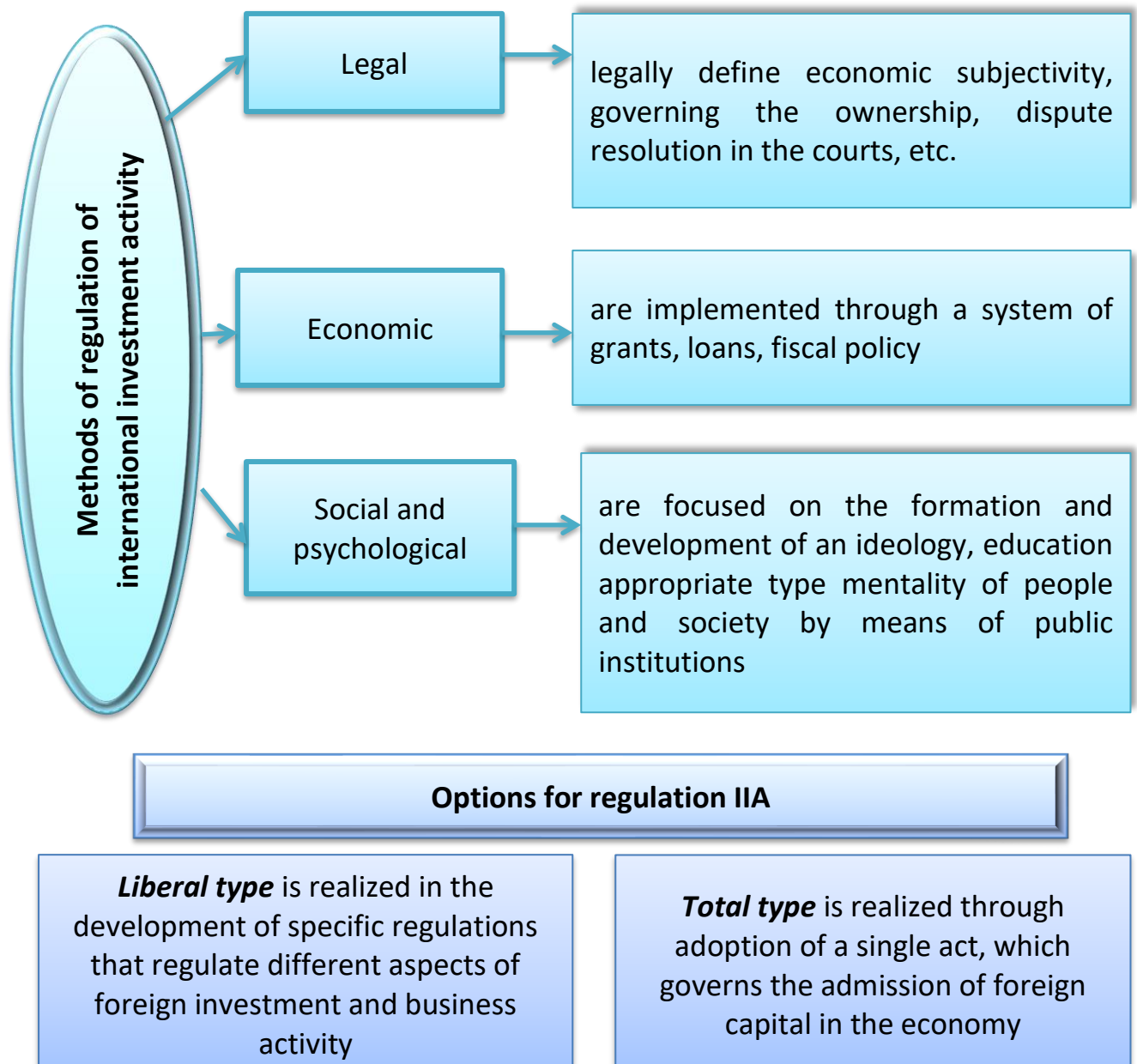
## Forms and methods of public administration of international investment activity

Questions that reveal the content of the topic

5.1. The system of regulation of international investment activity. Benefits and guarantees

5.2. International legal regulation of investment activity

### 5.1 The system of regulation of international investment activity. Benefits and guarantees



## ***Elements of legal regulation***

### ***The foreign investor identification***

#### ***Foreign investors are:***

- foreign individuals and entities;
- persons who reside abroad;
- foreign governments and international organizations.

### ***Types and forms of foreign investments***

The types of foreign investments are the values that are directly invested by foreign investors in business activities for profit (income) and achieved other goals.

### ***Qualified amount (percentage) of foreign investment***

Foreign investor classified by the amount of capital invested. Thus, in the global practice, the average investment is 50-100 thousand dollars US and qualifying ownership interest in the investee - share of 20%.

### ***The participation of foreign investors in property***

- preservation state control over strategic sectors of the national economy;
- preservation of certain industries or types of production under the state ownership;
- partial lifting of restrictions privileged investors;
- 100% ownership of foreign investors.

### ***The list of objects that are prohibited for foreign investment***

- to protect national interests from the list of companies to invest are not allowed foreign investors (strategic economic targets, defense industry companies etc.)

### ***Adjustment of profit repatriation of foreign investor includes:***

- the requirement creation of a reserve fund, which is stored in the banks of the host country;
- fixing the amount of capital that is exported (depending on the size of investment) and received income (and regulated by the general rules of currency regulation and currency cooperation agreements and special ru).

### ***Requirements for the performance of the foreign investor***

are defined goals of host country and differentiated according to certain indicators (share of national participant, the level of technology transfer, scale of activity, focus market opportunity training and jobs, etc.).

### ***The system of investment benefits and restrictions includes:***

- - factor benefits (subsidies, guaranteed and soft loans, tax exemptions, partial refunds, accelerating depreciation);
- trade benefits (tariff and non-tariff import and export barriers);
- special measures to limit and control the foreign investors activity.

## The system of investment guarantees

- Guarantees inclusion of the rights of foreign investors in the national legal system
- Guarantees of sustainability legislation
- Guarantees of protection against confiscation

**Developed countries** prefer financial incentives to fiscal as the first are more effective: they provide targeted exposure and concentrate on achieving specific national and national-oriented results.

**Developing countries and countries with transition economies** use tax incentives and administrative measures (this is due to lack of financial resources in these countries)

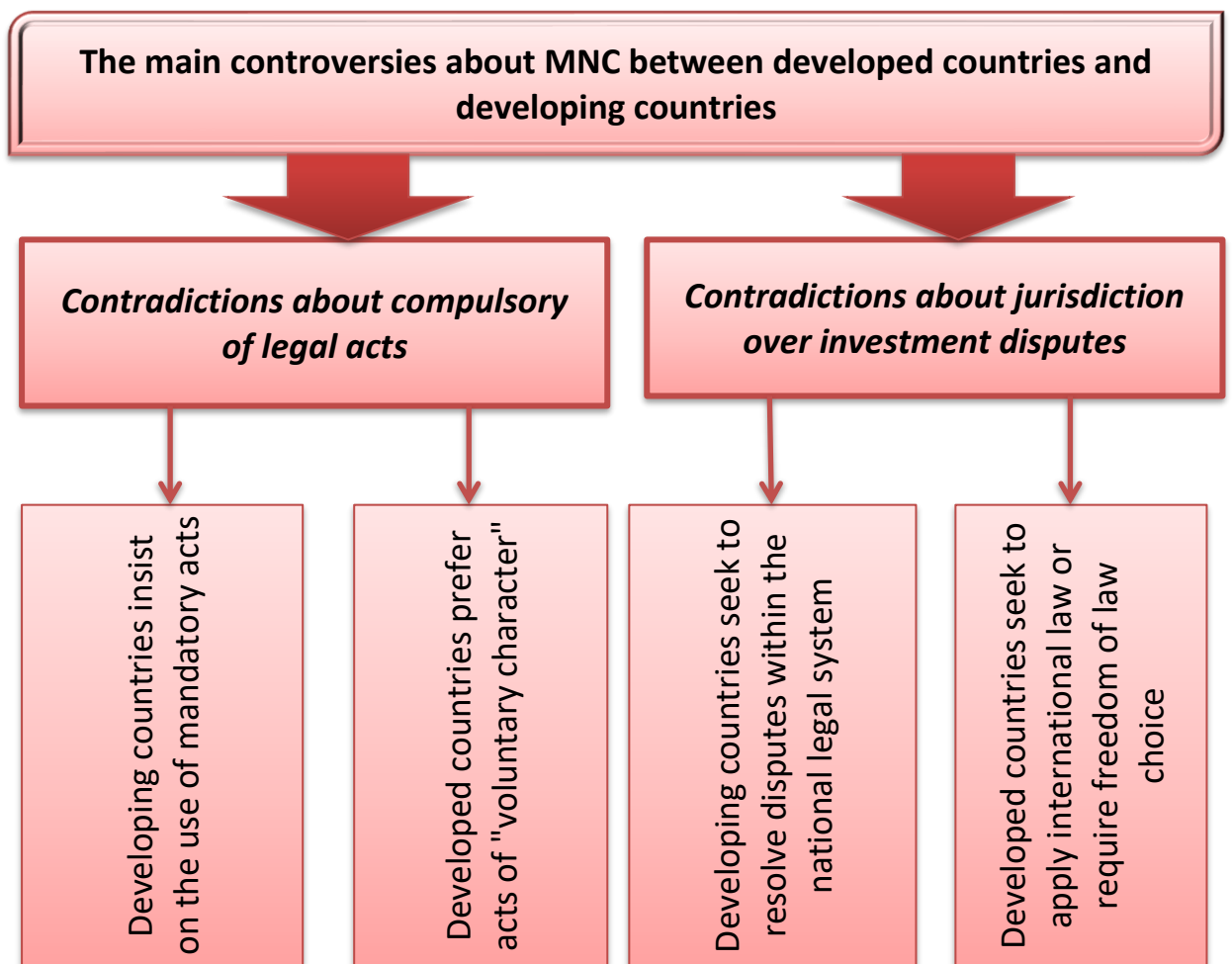
## Institutions of abroad investment supporting

Are created in developed countries to support private investment in developing countries

Represent the institution, providing information, investment brokerage, insurance and other financial organization services

## Investment agreements

are concluded to obtain legal protection by based countries their investment in the host country from possible non-commercial risks, and support the stability and reliability of the relationship between countries

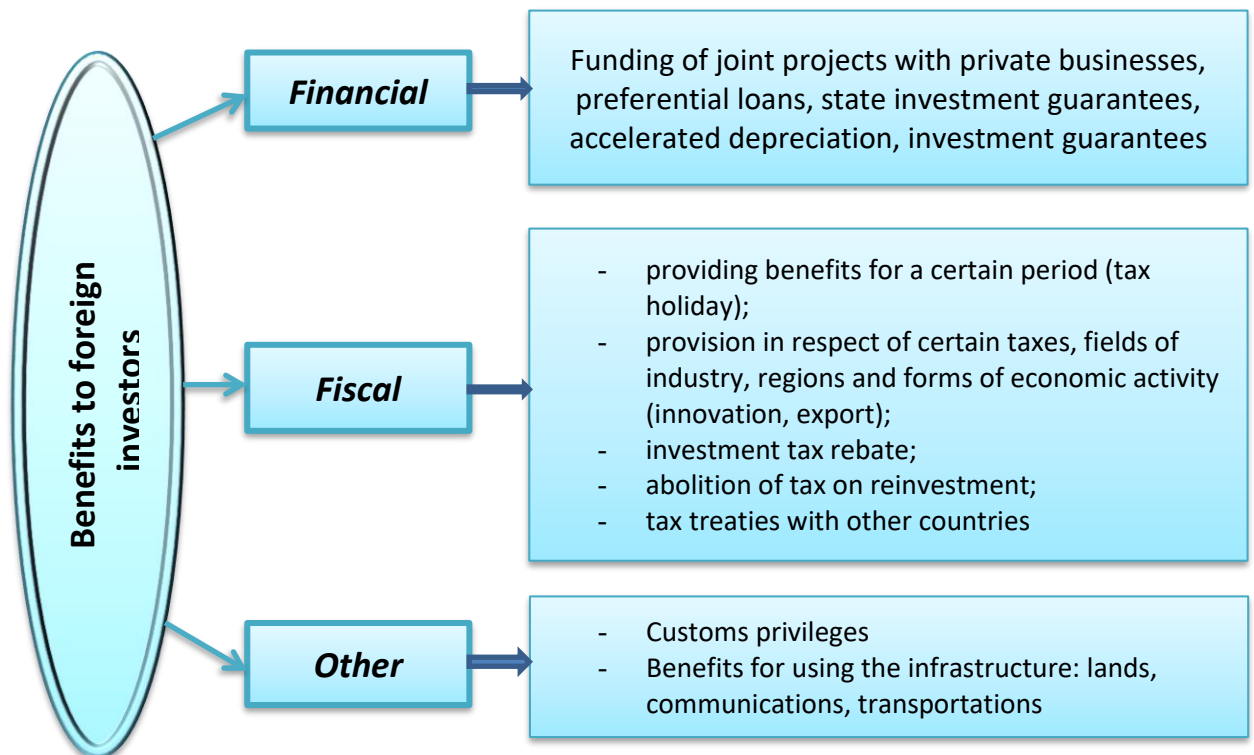


June 21, 1976 the OECD adopted the Declaration on International Investment and Multinational Enterprises. Declaration Supplement contained "Guidelines for Multinational Enterprises". **Ukraine joined this Declaration only in 2017.**

### Behavior principles of multinational companies

- 1) compliance with international law;
- 2) being subject to the right of the host countries;
- 3) taking into account the policy of the host country in the field of development and law;
- 4) cooperation with the host country, the exclusion of the practice of bribery and subsidies;
- 5) non-interference in the internal affairs

### International institutions that promote IIA



## Economic evaluation of benefits for investors



- + Allow to attract more foreign investment
- + Contribute to the modernization of equipment and technologies
- + Create new jobs
- + Compensate for the unfavorable economic climate



- Could contribute to irrational allocation of financial resources
- Discriminate against investors (domestic and foreign investors, investors from different countries)
- Reduce the profitability of attraction of foreign investments
- Efficiency benefits are reduced with an increase in their number

## Types of guarantees for foreign investors

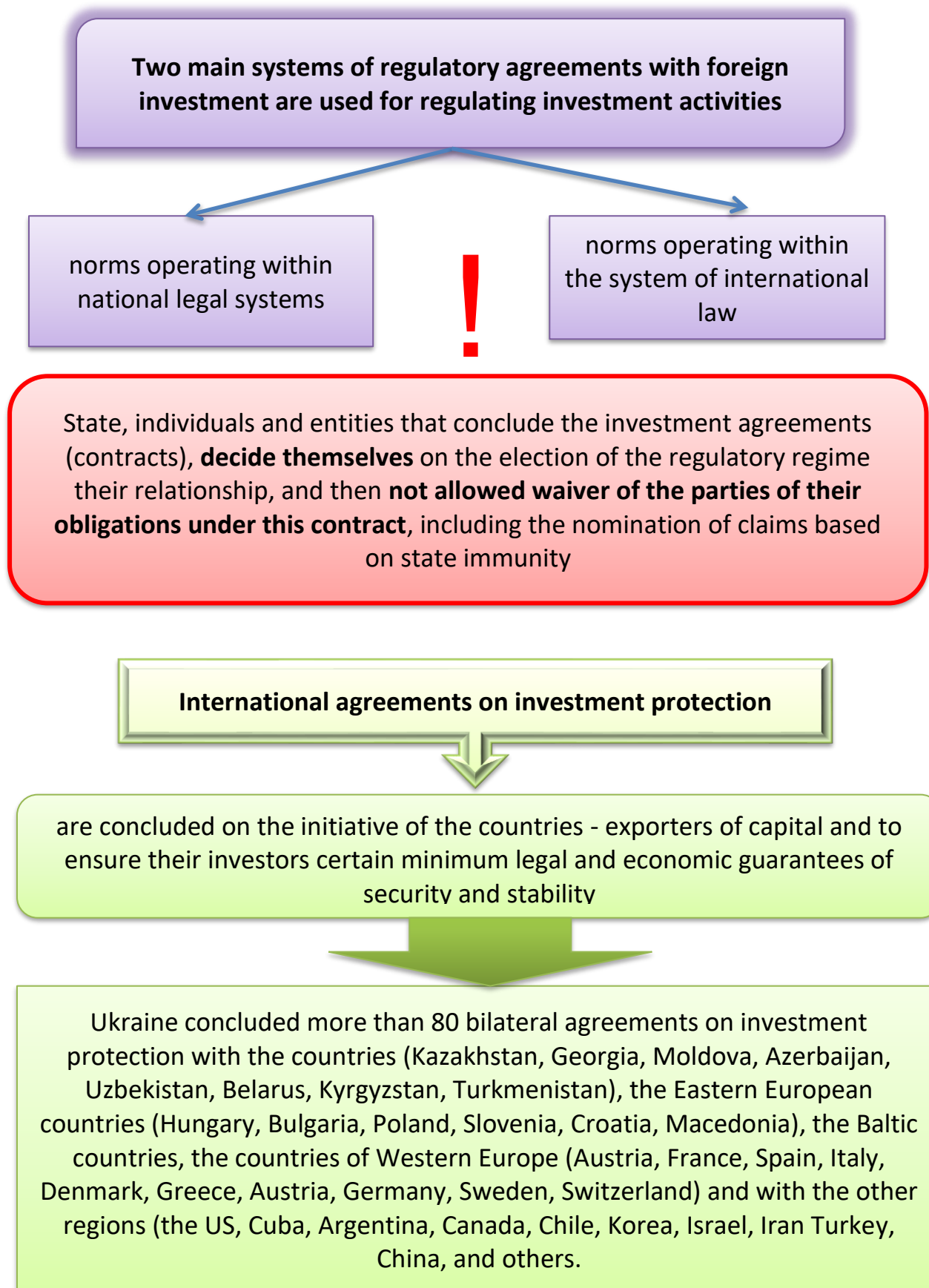
- guarantees from changes in legislation;
- guarantees from confiscation and illegal actions of state bodies and their officials;
- compensation and restitution to investors;
- guarantee in the event of termination of investment activity;
- guarantee the transfer of revenues, profits and other sums due to foreign investment..

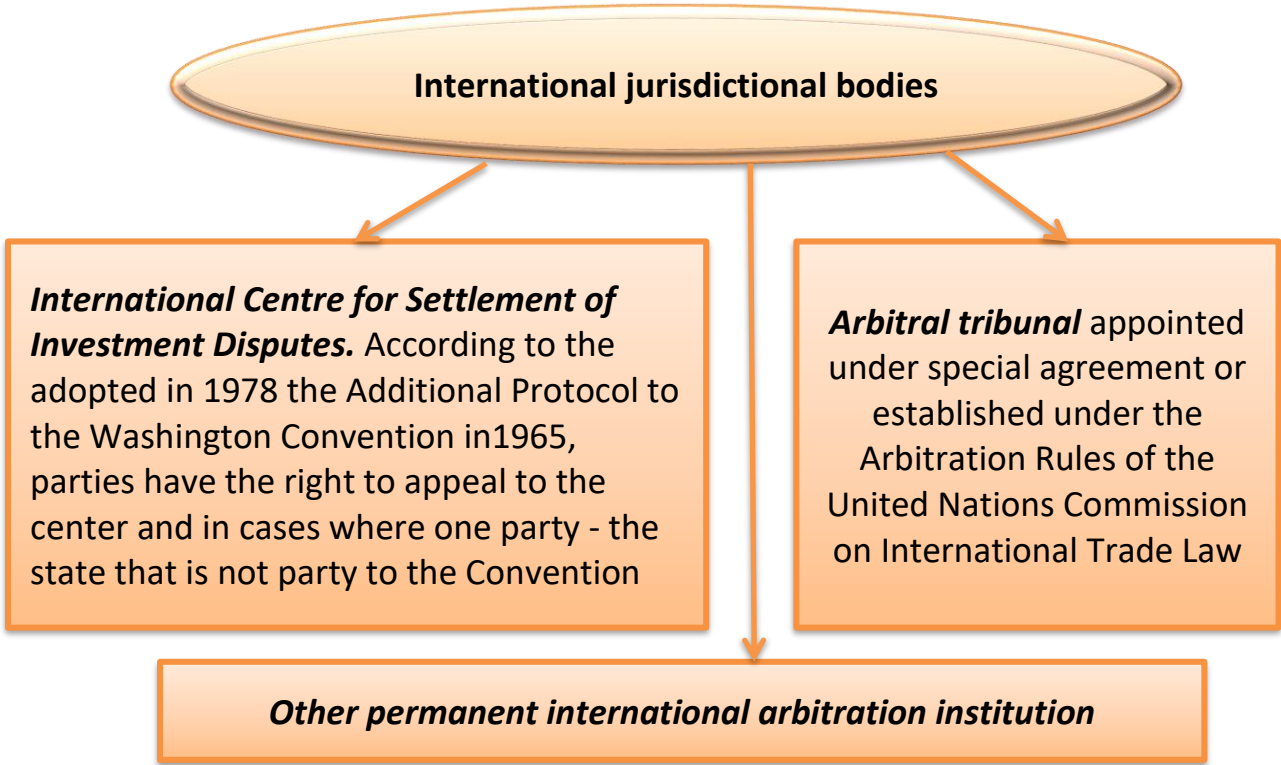
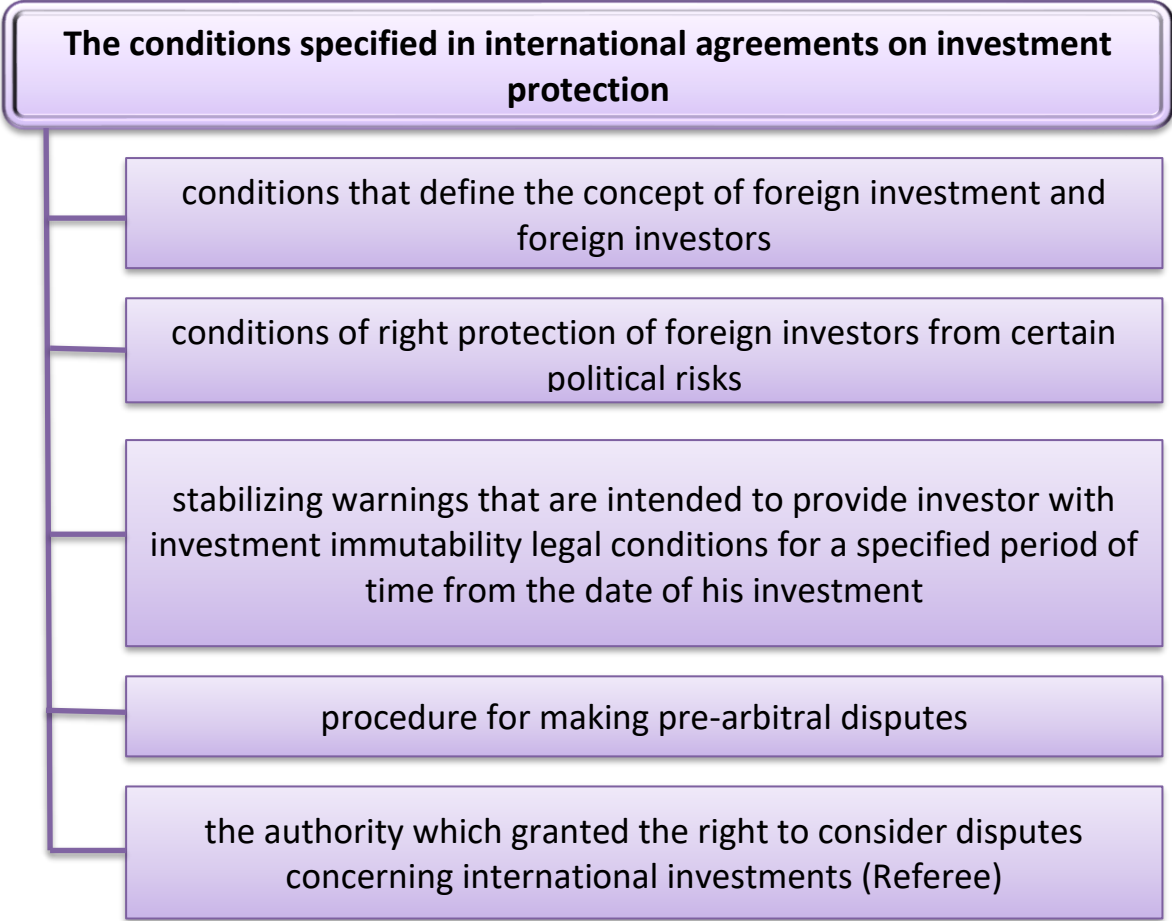
## Advantages the guarantees of benefits

Guarantees are cheaper for the country because it does not necessarily lead to cost

Guarantees provide benefits to weakest investors aligning competitive situation

## 5.2. International legal regulation of investment activity

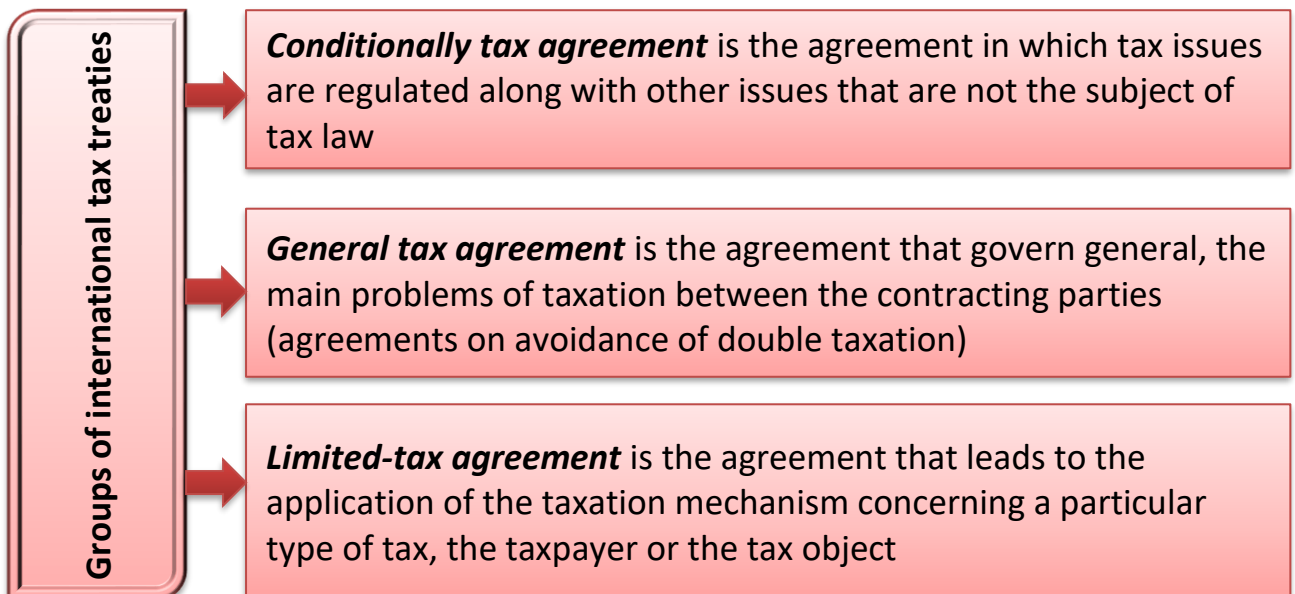




## Agreement on Avoidance of Double Taxation

It is the agreement on preventing the imposition of one object individual taxpayers with the same (or similar) tax for the same period of time (usually - tax period)

**The basis of double taxation** is different legislative regulation of the taxpayer and a source of income in the legislation of different countries and may be supplemented different legal interpretation of tax rules and tax elements of the process.



## The structure of Agreement on avoidance of double taxation

**First part:** established the scope of the agreement and it usually includes two articles that define circle of persons covered by this agreement, and provides a list of the taxes referred to in the agreement

**The second part:** defined tax regimes (regulated limits the jurisdiction of each country's taxation specific types of income and assets)

**Third part:** provides methods and the order of the transaction (order of relations and cooperation between the competent authorities to implement the agreement, the parties agreed method of avoiding double taxation, the term of the agreement).

## Agreement on free trade and industrial cooperation

- It means non-use of import duty in respect of goods of domestic production of the exporting country
- It means VAT application and excise duty on imports of goods at rates that do not exceed established for similar goods of national production of the importing country;
- quantitative restrictions on imports of certain goods in the event of necessity apply for a specified period, subject to a study by conducting bilateral consultations

### ***Tasks for control and self-control of knowledge***

1. To which option (liberal or totalitarian) would you attribute the organization of state regulation of international investment activities in Ukraine? Justify your opinion with references to the relevant legislative norms.

2. Find and analyze the content of one of the international investment agreements. How can the presence or absence of special requirements for a foreign investor in this agreement be explained?

3. What, in your opinion, is more acceptable: creating special conditions and requirements for a foreign investor or equating him in rights with a national investor? What determines the choice of state regulation options?

4. What is more effective in terms of attracting foreign investors - providing them with certain benefits or introducing special guarantees?

5. What is the generally accepted procedure for resolving international investment disputes? What are the first steps in this procedure?

## Features of Foreign Investments in Ukraine

### Questions that reveal the content of the topic

- 6.1. Formulation and estimation parameters of the national investment climate
- 6.2. Potential of free (special) economic zones
- 6.3. Problems of investment from Ukraine

### 6.1. Formulation and estimation parameters of the national investment climate

**Investment climate** is combination of political, legal, economic, institutional and social conditions that determine the attractiveness and desirability of investing a particular economic system (economy, region, company)

#### Classification problems with negative impact on investment climate in Ukraine

Economic

- - The instability of the macroeconomic environment
- - Invalidity directions of economic development
- - Imperfect and complicated tax system; high taxes; constant change in tax rules
- - Not transparent privatization procedures
- Low level of domestic financial market and its inefficient operation
- Restricted use of capital market instruments
- High inflation
- Lack of government support programs for new and privatized enterprises

## Legal

- The imperfection of the legal framework to protect investment;
- Instability legislation making arbitrary changes and additions in the legal acts, the presence of conflicting and ambiguous legal provisions;
- Imperfection of the legal framework, the absence or inability of regulators relating to certain fundamental regulations of investment (protection of intellectual property, copyright, insurance of foreign investment);
- Lack of ownership or long-term lease of land, which locate the company of investor; inability sale privatization objects together with the land on which they are located;
- Lack of effective customs control.

## Organizational

- Lack of adequate information to provide potential investors about the economic and investment potential of Ukraine and its regions;
- Poor market infrastructure;
- Inconsistency used in Ukraine accounting systems and controls (statistics, accounting, certain categories of content and terms, method of calculation) that exist in the West;
- No use of funds provided by foreign investors to the Ukrainian partners.

## Social and psychological

- indiscipline and unreliability business partners from the Ukrainian side;
- corruption and bureaucracy in matters of business;
- inertia and low entrepreneurial activity of the population;
- reluctance of most Ukrainian businessmen to cooperate with foreign partners, which is found primarily in the non-fulfillment of contractual obligations relating to the timeliness of settlements.

Investment attractiveness is assessment of the Investment Climate in relation to a particular investment object

Elements of investment attractiveness (according to the magazine "Euromoney")

- efficiency of economy
- level of political risk
- state of the debt
- ability to repay debt
- solvency
- availability of bank credit
- availability of short-term financing
- availability of long-term debt capital
- probability of force majeure events

The structure of the index of investment attractiveness of Ukraine regions (by the method of the Institute for Economic Research and Policy Consulting)

**Strict factors:**

- 1. Natural Resources
- 2. Labor resources
- 3. Innovative capacity
- 4. Geographical Location
- 5. Consumer segment
- 6. Business Segment
- 7. Infrastructure

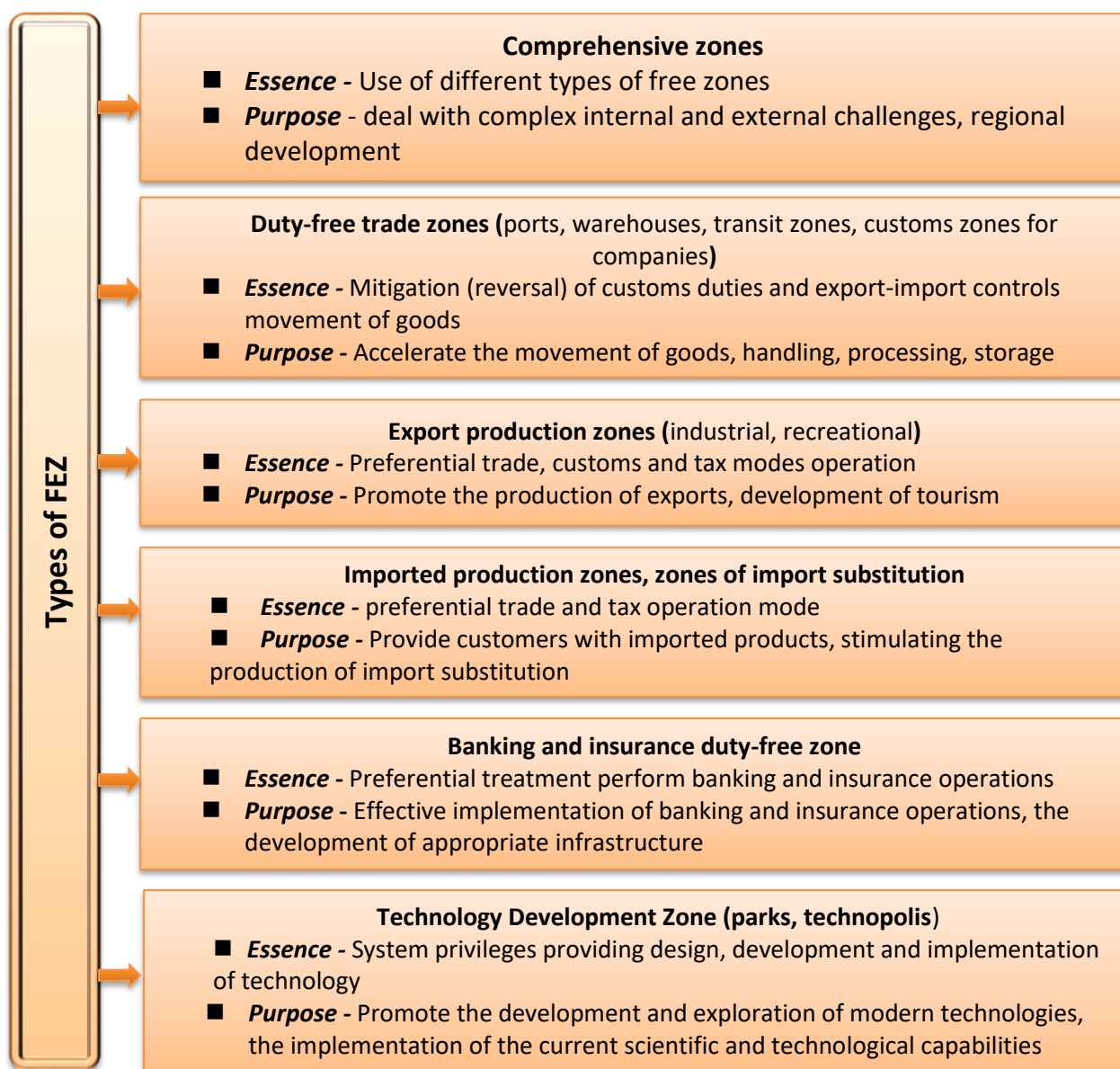
**Soft factors:**

- Business Climate
- Policies and Procedures
- Openness of government
- The business optimism
- Successful experience

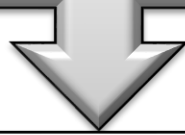
## 6.2. Potential free (special) economic zones

**Free Economic Zone.** This is a limited part of the country, which is characterized by a specific mode of operation of economic entities, the enclave as a guarantee of the stability and a certain freedom

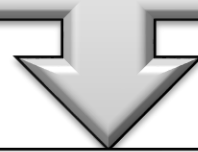
According to the decision of the Kyoto Conference (1973), under a free economic zone understands the territory of the country where the products are considered as objects that are outside the customs territory and are not subject to the usual customs and taxation



**Offshore zone** is a country or territory of some countries where at the state level for certain types of companies owned by foreigners, substantial tax benefits, partially or completely removed customs and trade barriers, reduced or no requirements for accounting and auditing



**An offshore company (a company incorporated in a jurisdiction with low tax or tax-free based on small fixed fee)** could receive benefits only if company owners are foreigners, and profits should be removed outside the jurisdiction where it is registered



Offshore companies are prohibited to conduct business in the home country, because otherwise the government would put in unequal conditions local firms comparison with offshore, which have tax advantages.



Countries and territories are deliberately creating favorable conditions for international economic activity ("clean" offshore zones) there are about 80. Majority of them are concentrated in Europe and the Caribbean

***Offshore zones could be classified according to the degree of reliability***

***The first group:*** Hong Kong, Singapore, Luxembourg, Switzerland, Dublin, Guernsey, Isle of Man and Jersey

***Second group:*** Andorra, Bahrain, Barbados, Bermuda, Gibraltar, Labuan (Malaysia), Macau, Malta, Monaco

***Third group:*** Antigua and Barbuda, Aruba, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Lebanon, Liechtenstein, Marshall Islands, Mauritius, Nauru, Netherlands Antilles (Netherlands), Panama, St. Kitts Island and Nevis, Saint Lucia, Samoa, Seychelles, Bahamas, Vanuatu.

**To create a SEZ, the following documents must be submitted::**

- a decision of the local Council or local state administration with a request to create a SEZ on their territory or written consent in the event that the initiative comes from the President of Ukraine or the Cabinet of Ministers;
- a draft regulation on the statute, management system and official name of the SEZ;
- an accurate description of the borders and a map of the SEZ territory;
- a feasibility study of the creation and functioning of the SEZ;
- a draft law on the creation of a specific SEZ.

### **6.3. Problems of investment from Ukraine**

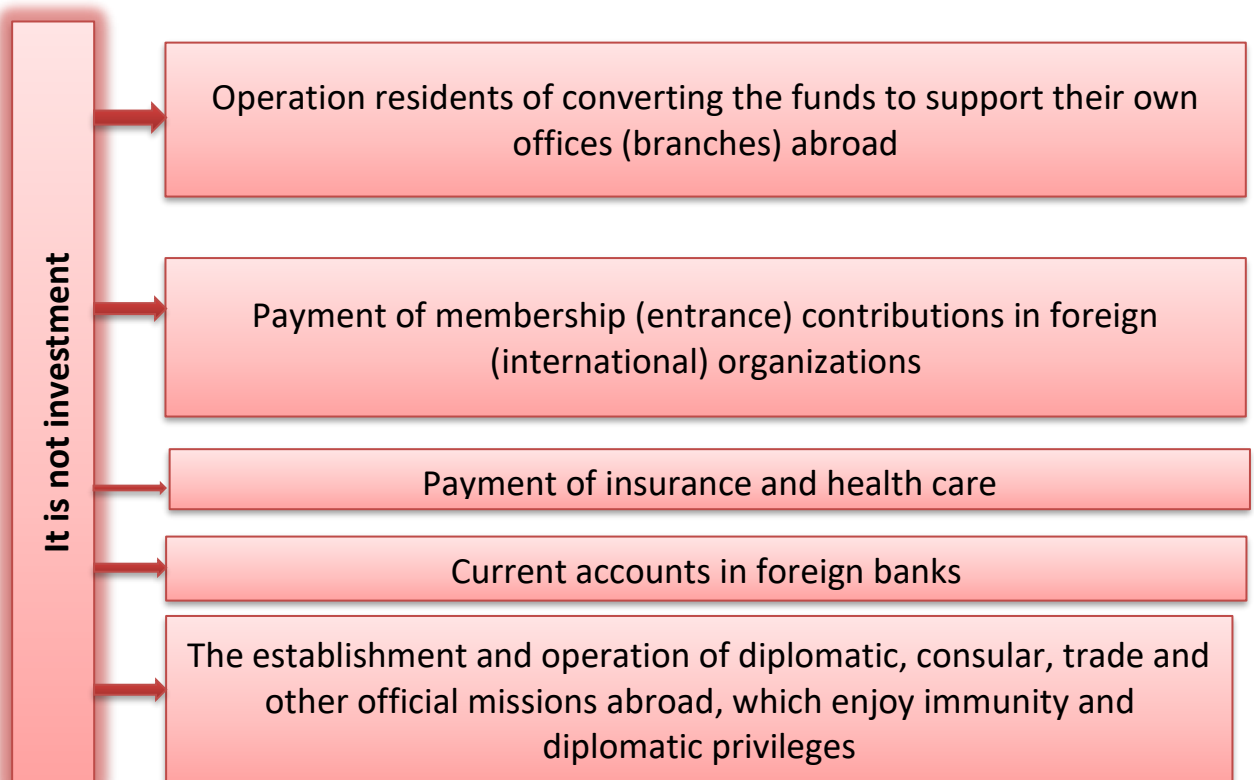
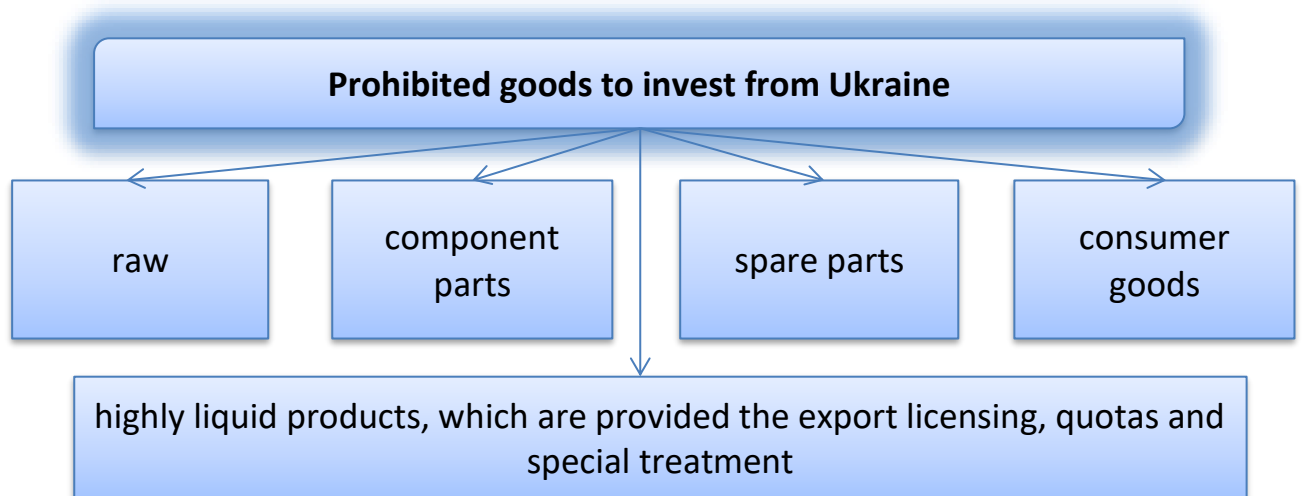
Investing abroad, including the purchase of securities (with the exception of securities or other corporate rights received by resident natural persons as a gift or inherited), takes place under an ***individual license issued by the National Bank of Ukraine.***

It is issued for a one-time foreign exchange transaction ***for the period necessary for such transaction***

#### **Documents for obtaining a license for foreign investment**

- an application letter justifying the need to make property investments outside of Ukraine;
- a notarized copy of the certificate of state registration of the subject of entrepreneurial activity, if the legal entity or individual is such;
- a notarized copy of the founding documents of the legal entity (statute, founding agreement, regulations);
- the consent of the relevant bodies of the state executive power or another executive body, when state-owned property is invested outside the borders of Ukraine;
- certificate of the bank institution in which the resident's account was opened;;

- a document confirming the value of property values in foreign convertible currency at international market prices;
- calculation of the terms necessary for the realization of property investments outside Ukraine;
- a document confirming the payment of the fee for the issuance of an individual license;
- documents testifying to the registration (creation) of the enterprise, branch, representative office, other separate subdivision in the country of location (extract from the trade, bank, court register, etc.) and their founding documents



### ***Tasks for control and self-control of knowledge***

1. Analyze how the economic problems that hinder foreign investment have changed over the past three years. In your opinion, in what direction are the changes taking place?
2. Analyze the dynamics and volumes of foreign direct investment in Ukraine over the past ten years. What, in your opinion, are the factors causing the identified fluctuations?
3. Investigate the changes that have occurred in the international Doing Business ranking in recent years regarding Ukraine's position. In what parameters is there tangible progress, and which positions do not provide an opportunity to improve the investment climate?
4. Suggest an international investment project and assess its investment attractiveness for a foreign investor. Do the positions of domestic and foreign investors differ in assessing investment attractiveness?
5. Analyze the dynamics and scale of foreign investment from Ukraine. Why is Ukraine a net recipient?
6. What motivates Ukrainian business to register enterprises in offshore zones? How can the effects of these factors be mitigated?

## Content module 2. INTERNATIONAL ACTIVITIES IN THE FINANCIAL INVESTMENT MARKET

### Chapter 7

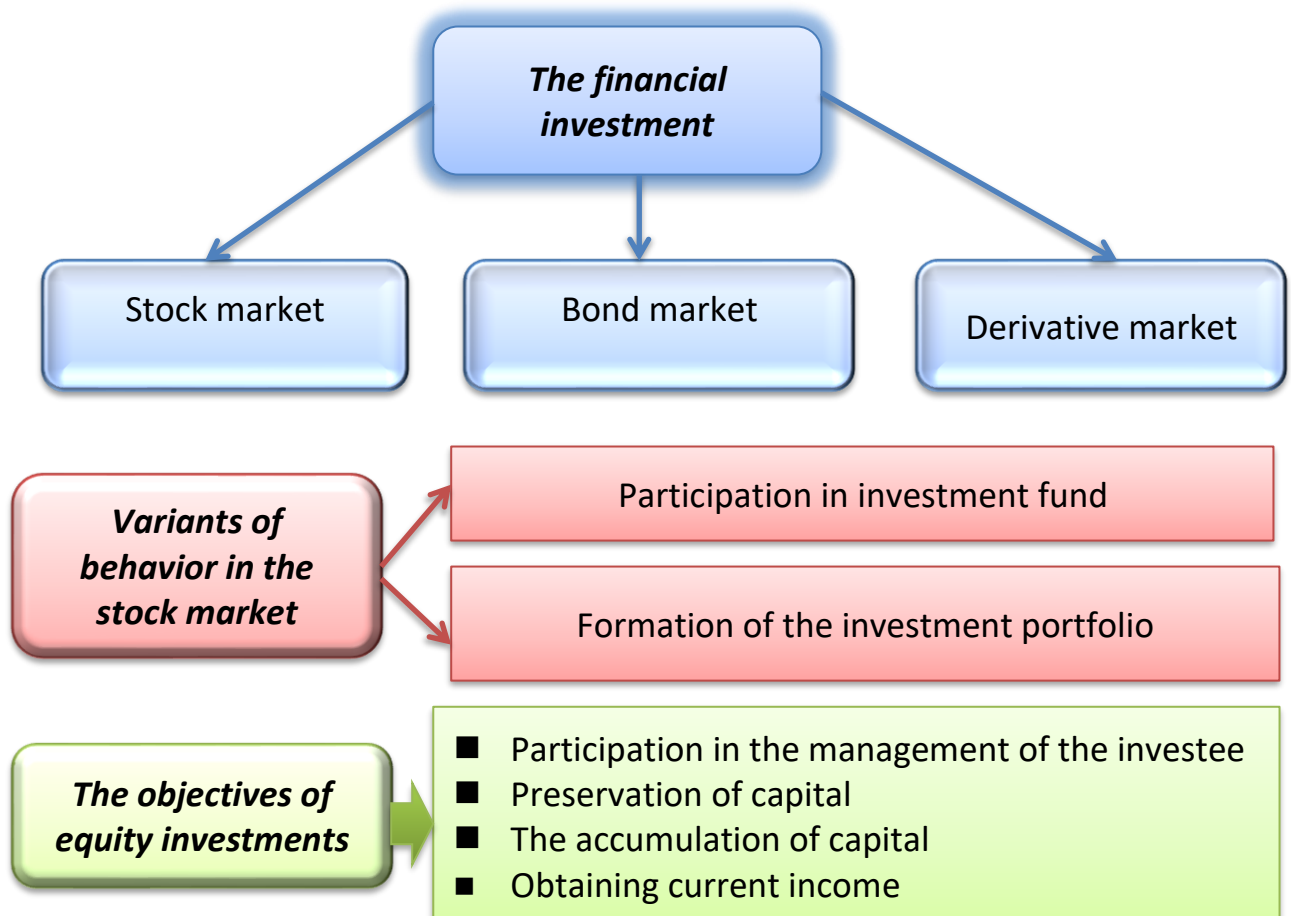
#### International stock market

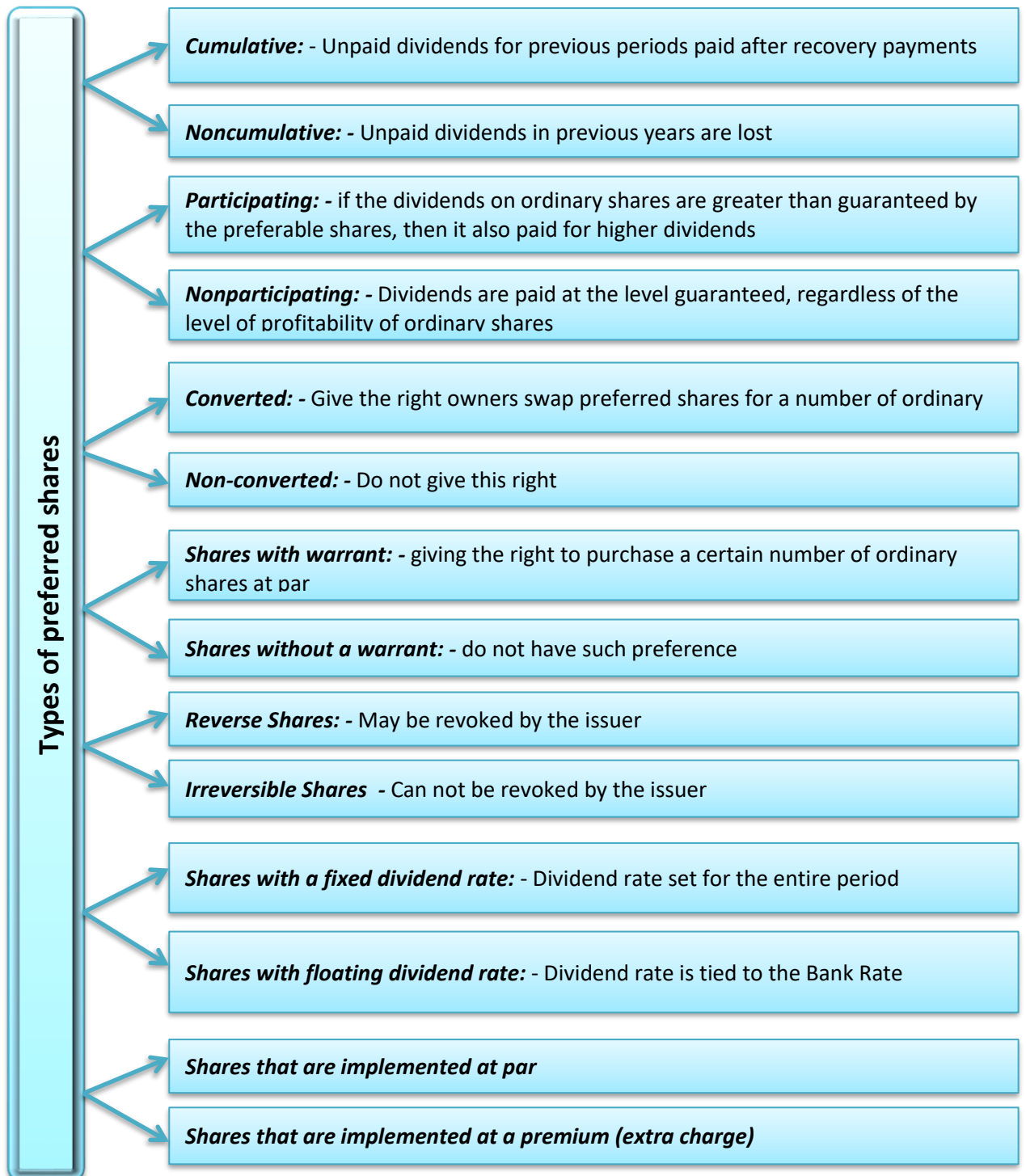
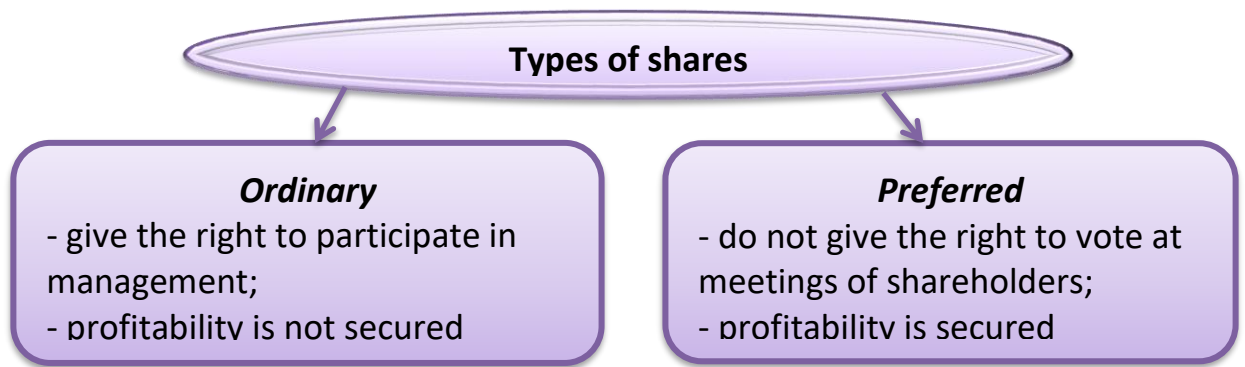
##### Questions that reveal the content of the topic

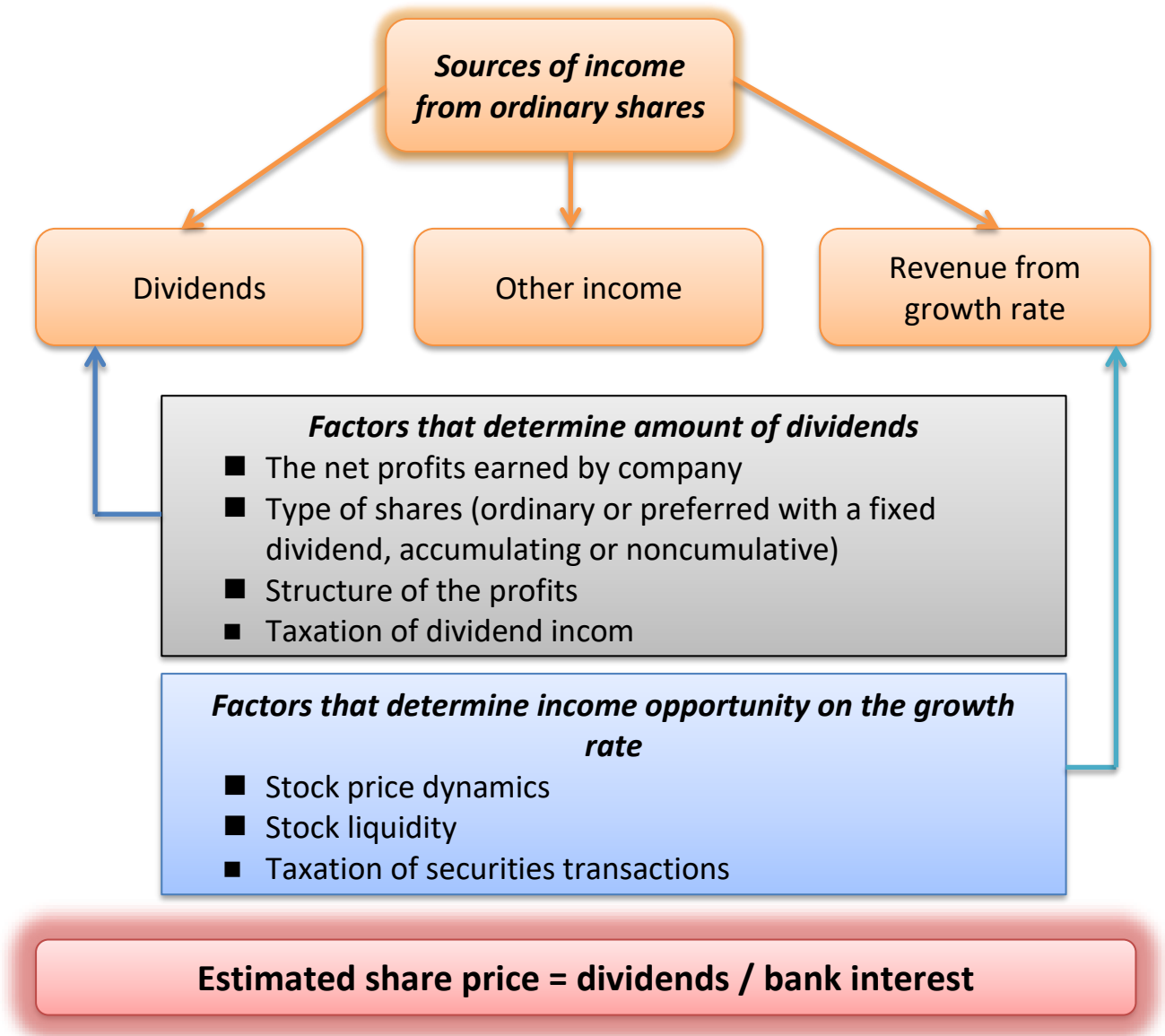
- 7.1. General features of investing in stocks
- 7.2. Classification shares as investment object
- 7.3. The main indicators for assessing shares
- 7.4. Strategies of investing in common stocks

##### 7.1. General features of investing in stocks

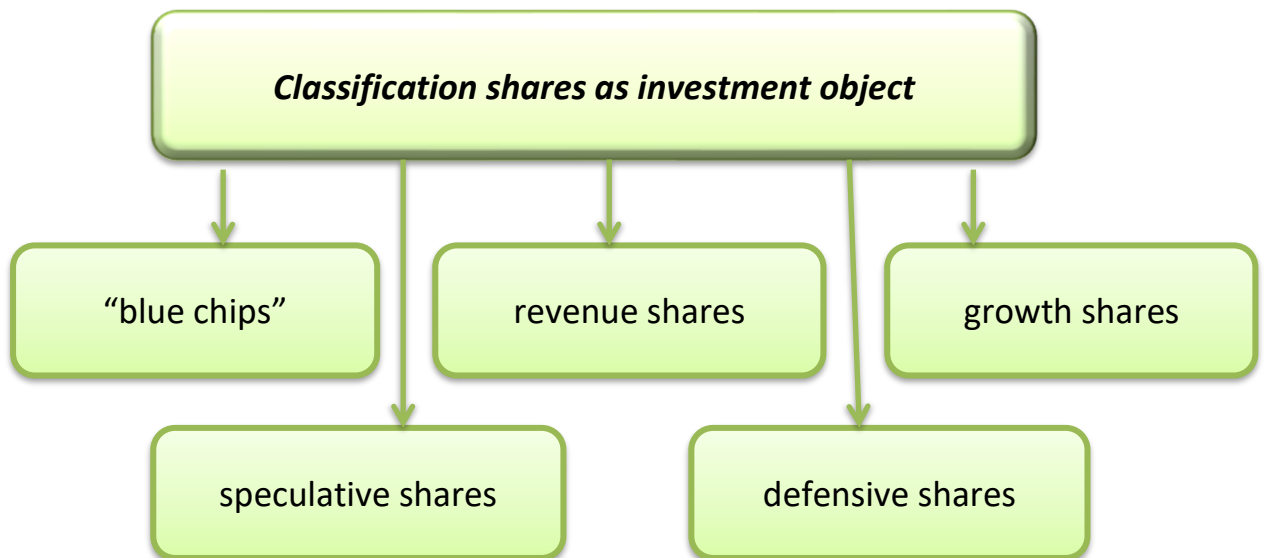
**The financial investment** is business transaction that involves the purchase of corporate rights, primary securities, derivatives and other financial tools







## 7.2. Classification shares as investment object



### ***"Blue chips"***

- There are shares the largest, most well-known and sufficiently stable companies
- Have little growth potential (due to the high initial price)
- Provide a stable dividend income (2-3%)
- There are attractive in terms of long-term investment with low risk (5-10 years or more)

- Philip Morris Companies (MO);
  - Procter & Gamble Co. (PG);
- Mc Donald's Corporation (MCD);
  - General Electric Company (GE);
- Caterpillar Inc (CAT) (manufacturer of construction machinery);
  - AT & T Corporation (T);

### ***Revenue shares***

- Have little potential for growth through a steady volume of business company activity
- Provide a high dividend income (more than the blue chips, 3-8%)
- Attractive for moderately aggressive investors
- The degree of risk is higher than in share of the first group

### ***Growth shares***

- These are shares of companies with very favorable growth prospects
- Dividends are not paid on them, or are of a symbolic size
- A potential problem may arise when trying to lock in a capital gain on a large block of shares
- Attractive for investors seeking significant capital growth with limited risk

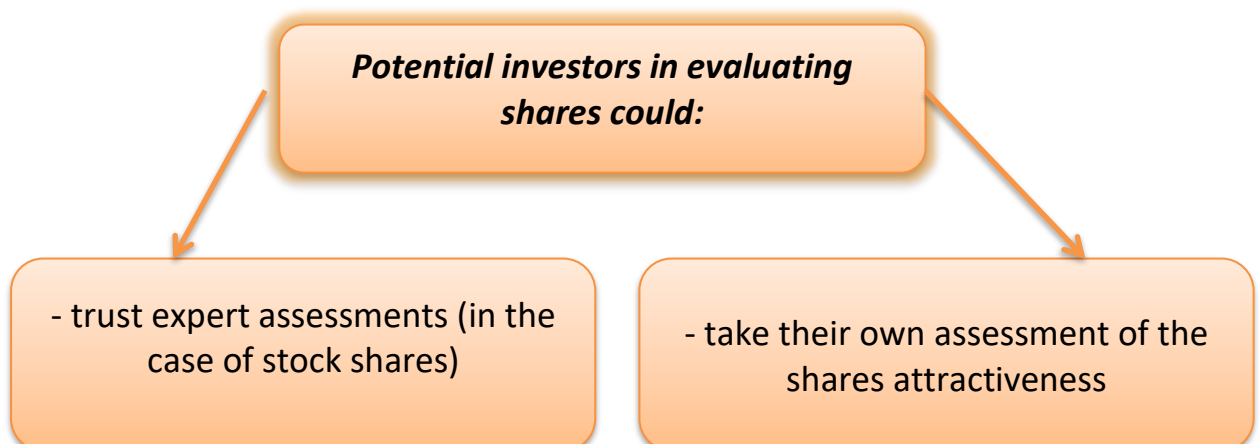
### ***Speculative shares***

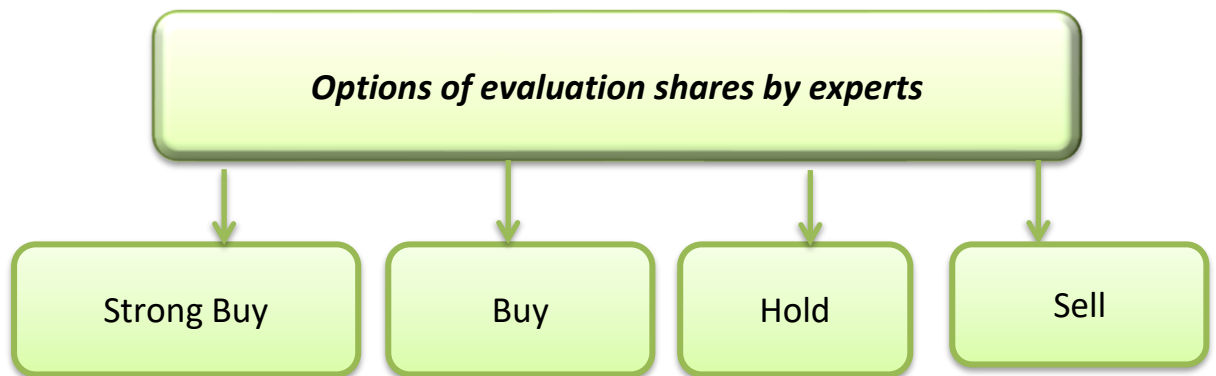
- The shares of small and young companies
- According to an investor, their current price is low
- Prospects for the payment of dividends and the price dynamics are uncertain
- In case of a successful investment, they could bring profits which several times higher than initial investment

### ***Defensive shares***

- Issuers are companies whose demand for their products is inelastic
- Stock price fluctuations are insignificant regardless of the macroeconomic situation
- Stocks are used to preserve the value of financial capital in times of crisis
- Issuers of defensive stocks, as a rule, are representatives of the sectors of public utilities, pharmaceuticals, food products, and consumer staples.

## **7.3. The main indicators for assessing shares**





**Analytical indicators in assessing the attractiveness of shares**

- price / earnings ratio (P/E)
- growth of price / earnings ratio (P/E ratio growth, PEG)
- price / sales ratio (PSR)
- Price / book value ratio (PBR)
- Current Ratio (CR)
- Performance Indicators of management
- «Beta» ratio

**Price / earnings ratio**

- calculated by dividing the current share price by the amount of profit in the company per share;
- the expression "Shares of Procter & Gamble Co. traded with a multiplier 38" means that currently for every dollar of profit the company investors pay \$ 38;
- could be evaluated by comparing with corresponding indicators of other companies and the industry as a whole

### ***Growth of price / earnings ratio***

- Considered that the value of PEG is higher than 1, indicating that investors overpay for the shares of the company because its true ratio P / E is not justified by the expected growth rate of earnings. Therefore, investors preferred shares with a PEG value below 1.
- PEG particular stock as well as the ratios P / E should be considered with the average value PEG for the industry to which is the analyzed company.

### ***Price / sales ratio***

- PSR is considered as the ratio of the current price-to-sales of the company per share for the year. This parameter is especially useful in the case where the analyzed company is still young and it is not reached the level of profitability.
- Ideally, the PSR should be less than 1.
- The value of PSR at 2 and below is quite acceptable when looking for undervalued stocks..

### ***Price/book value ratio***

- This ratio represents the ratio of the current market value of shares to net assets value according to the latest quarterly report
- The lower the ratio is better
- It is necessary to compare PBR this share with PBR the industry average.

## ***Current ratio***

The concept of current ratio means the ability of the company to cover their daily expenses and to fulfill short-term liabilities to the extent of their payment due date.

$$\text{CR} = (\text{current assets}) / (\text{current liabilities})$$

In general, it is considered that the best CR is 2 or slightly more.

## ***Performance Indicators of management***

- ***Return on Equity, ROE***
- ***Return on Investment, ROI***
- ***Return on Assets, ROA***

Index of ROE is calculated as the percentage ratio of net profit to the company's cost of equity. Indicator of ROE reflects management's ability to manage its assets and shows that the profit of the company brings its share capital

Index of ROI is different from the previous ones, which defines management's ability to profit from the management is not only with the own costs but also the funds invested in the company by investors to significant time

ROA index describes the ability of a company to make a profit from the total assets held by the company, and is calculated as follows:

$$\text{ROA} = \text{Net profit (after tax)} / \text{total assets}$$

***The general rule for investors is to find a company with high levels of ROE, ROI and ROA, do not invest in companies in which these values tend to decrease.***

### **«Beta» ratio**

- It is used in relation to the shares in the US market
- Calculated using the formula:

$$\frac{\text{The percentage change in the stock price}}{\text{The percentage change Standard \& Poors 500}}$$

- Used to evaluate shares in terms of "defense" and "speculation"

Aggressive investors are able to take risks for the sake of high returns, they will select shares with high values of  $\beta$ . Investors whose strategy is to preserve capital and ensure its moderate growth, they will pick up shares with a value of  $\beta$ , less than or equal to 1.

***In addition there is a general rule, according to which **the expected market growth investors buy shares with high value  $\beta$ , and the expected decrease in market shares of low value  $\beta$ .*****

## **7.4. Strategies of investing in common stocks**

- The strategy of long-term ownership
- The strategy of high returns on invested capital
- The strategy for long-term investment growth
- Aggressive management of portfolio
- The strategy of speculation

### ***The strategy of long-term ownership***

- use the investors whose primary goal is to preserve the invested capital.
- the funds are placed only in high-quality stocks that are circulating in the market at least 15-20 years and have an excellent reputation.
- much of the income received in the form of dividend payments, it is used to supplement the investment portfolio of the same reliability or the same shares.

**This strategy is often used by various pension funds.**

### ***The strategy of high returns on invested capital***

- - used investors who use shares as a source of current income.
- - use a reliable and high-yield shares.
- - Not necessarily that shares had significant percentages of growth. The main thing is safety shares and high dividend income.

### ***The strategy for long-term investment growth***

- - This strategy involves a high degree of risk compared to the previous two, and sufficiently high trading activity, which consists in a fairly large number of transactions.
- - shares used large, reliable company that is constantly growing. Stock portfolio is reviewed periodically and changes its composition - bought new promising shares and sold shares which potential, according to investors, largely exhausted.
- - dividends in this strategy are considered as an additional source of income, as in many growth stocks are not paid generally.

### ***Aggressive management of portfolio***

- Aggressive management of portfolio is very similar to the strategy of long-term investment growth. If the investment horizon the previous strategy is 2-3 years, with this strategy the investor plans to get the same profit for 8-10 months
- Set of investment instruments used at work as in this strategy, and the strategy for long-term investment growth, similar - profitable growth stocks, defense stocks, but trading activity on higher order.

### ***The strategy of speculation***

- The most risky strategy that could bring as a fantastic income, and catastrophic losses, until the complete ruin.
- It is more a game rather than investment because the process of analyzing companies and market fades into the background, and the process sometimes is absent.
- At the foreground of market knowledge of psychology, personal psychological stability and composure, as well as the ability to apply some methods of technical analysis.

### ***Tasks for control and self-control of knowledge***

1. Compare the advantages and disadvantages of two options for entering the stock market: participation in an investment fund and forming your own stock portfolio?

2. An investor was offered to purchase shares of a company at a price of 200 UAH per share. The expected dividends per share are 25 UAH per year. Is it profitable for an investor to purchase shares at this price and what is the

maximum price he can agree to if the bank interest rate on deposits is 13% per annum?

3. The nominal value of a share is \$1,000. Dividends per common share are \$90. 5 preferred shares give the right to purchase 1 common share at par. Fixed dividends per preferred share are 9%. What is more profitable for an investor: to purchase 5 preferred shares with a warrant and a premium of 2%, or without a warrant?

4. Using the price/earnings ratio, evaluate which stocks are more attractive to the investor:

	Company A	Company B
Number of shares	12 000	20 000
Current share price	12	48
Total profit	48 000	160 000

## Chapter 8

### International bond market

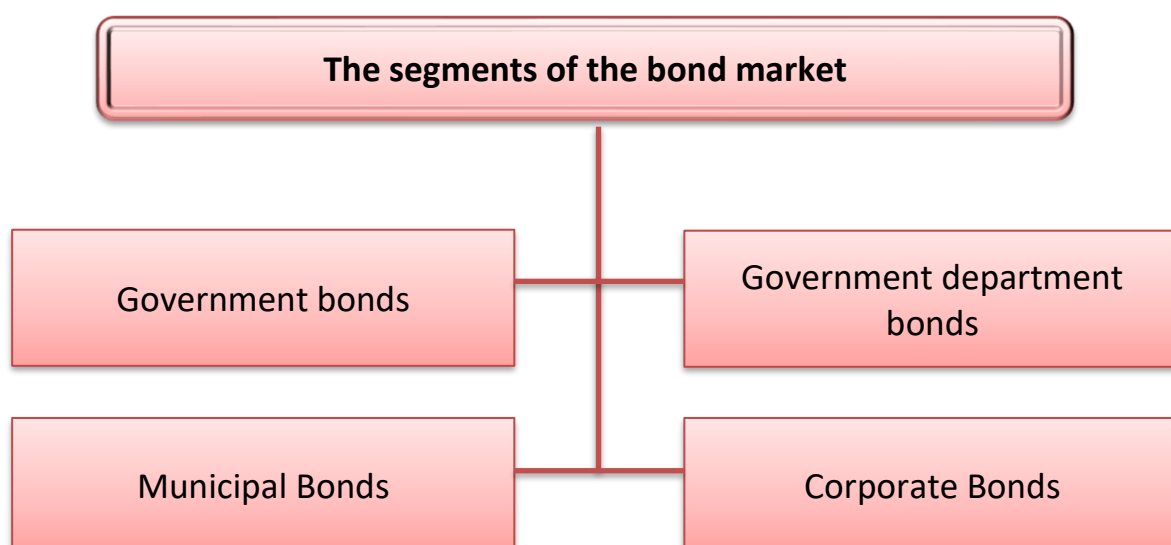
#### Questions that reveal the content of the topic

- 8.1. Essence and types of bonds
- 8.2. Key indicators in assessing of bonds

#### 8.1. Essence and types of bonds

**Bonds** are securities with pre-defined period of existence, which reflect the loan relationship between lender (bond holder) and the borrower (issuer of bonds)

Index	Ordinary share	Bond
Circulation period	Is not defined	Defined
The fee amount	Floating	Fixed
Terms do not receive remuneration	Lack of profit	Lack of property company



## **Government bonds (for example, the US)**

### **1. Treasury bills**

- have remaining term from 3 months to 1 year and a nominal value of 1,000 USD and above.
- Are non-interest bearing securities that are sold below their face value. The remaining term is reached and Treasury Department buys them for full face value.

### **2. Treasury notes**

- have remaining term from 1 to 10 years and produced a cost from 1,000 USD and above
- Interest on them is paid semi-annually at a fixed, predetermined rate.

### **3. Treasury bonds**

- have remaining term from 10 to 30 years and the minimum value is also 1,000 USD.
- Interest is paid biannually at a predetermined fixed rate.

Treasury obligations of all these types make it possible to obtain a number of tax advantages. Profits from these securities are subject to federal tax but they are not tax deductible at the state and municipalities

A special type of government bonds are so-called International Bonds, i.e. bonds denominated in foreign currencies and they are designed to accommodate overseas

## **Government departments bonds**

- there are debt securities issued by various agencies and U.S. government agencies.
- there are not obligations of the U.S. Treasury (although in fact their level of reliability is almost the same).
- generally provide a higher rate of return than Treasury bonds, and it allows the investor to increase profits practically without increase of degree of risk.

1. **Federal National Mortgage Association, FNMA (Fannie Mae)** — is largest investors in residential mortgage loans in the United States, the main objective of the company is to ensure the liquidity of the mortgage market. Profits from these securities are taxed.

2. **Federal Home Loan Mortgage Corporation, FHLMC (Freddie Mac)** — the goal of the company is to provide access to residential mortgage loans and stabilization of the secondary mortgage market. Profits from these securities are also taxed.

3. **Federal Home Loan Bank System, FHLB (Home Loan)** — purpose of the bank is to provide financial support to their own residential space. FHLB papers are tax deductible from state and municipal authorities.

4. **Federal Farm Credit Bank, FFCB (Farm Credit)** — purpose of the bank is extend credits to the agricultural industry in terms of competitive interest rates. Profit from these securities is not subject to taxation by the states and municipalities

5. **Government National Mortgage Association, GNMA, (Ginnie Mae)** purpose of the association is mortgage lending. Profits from these securities are taxed.

## **Municipal Bonds**

**Municipal obligations (municipal bonds or muni's)** are issued by state, cities and are usually issued in denominations of 5000 dollars. Proceeds from sale of municipal obligations are used for the construction and operation of multiple global facilities such as schools, hospitals, roads, stadiums, etc..

**Ukrainian counterpart is the local authorities bonds**

## **Corporate Bonds**

Corporate bonds, known as «corporates», available as open shareholders and private companies.

There are 5 main types of corporate bonds of issuers representing various sectors of the economy:

- - Public utility.
- - Transport companies.
- - Industrial companies.
- - Financial companies.
- - Multiple Corporation.

### **Types of Corporate Bonds**

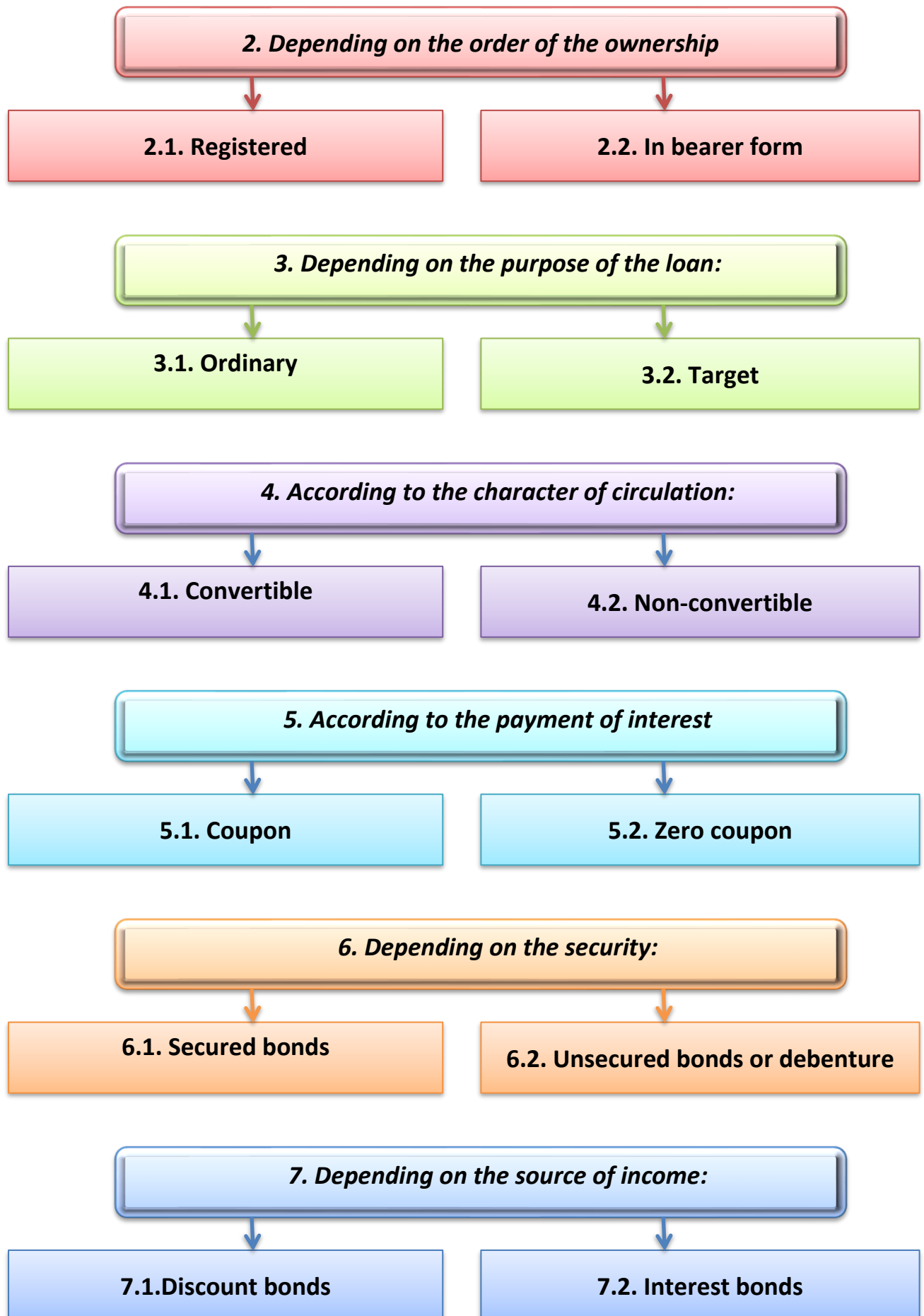
#### **1. Depending on the duration:**

##### **1.1. Bonds with certain maturities**

- Short
- Medium
- Long

##### **1.2. Bonds without a specific remaining term**

- 1.2.1. Callable bonds
- 1.2.2. Early repayment bonds
- 1.2.3. Bonds with the right postpone repayment
- 1.2.4. Extend bonds



## 8.2. Key indicators in assessing bonds

### The basic parameters of the bonds

#### ***Face value (par);***

- - there is the amount of money that the investor will receive when the bond will be repaid. This means that the entity who has sold a debt, return the original loan amount, called the principal of the loan.
- - face value of corporate bonds is generally \$ 1,000, while the nominal government liabilities could be significantly higher.

#### ***The coupon rate or nominal yield***

- - these are the amount of money that bondholders will receive regularly. The coupon rate is expressed as a percentage of face value .
- - If the face value of the bond is \$ 1,000 and the coupon rate is 10%, then the owner of the bond will receive \$ 100 annually.
- - when coupon income paid is also indicated in bonds - monthly, quarterly, once in six months or once a year.

#### ***The maturity date***

- - This is the day when the issuer must return the lender the principal amount of the debt. After the vendor will pay the principal amount of the debt, it is no longer required to make interest payments.
- - Sometimes the company decides to "recall" their debt. This means that it returns to its lenders their money until the maturity bonds.
- - For all corporate bonds indicate is there a possibility of early withdrawal and how soon could happen early withdrawal..

## The profitability and bond price

- Bond profitability is calculated by dividing the annual interest income at the current market bond price. So if the current price of the bond is \$ 1,000 and it brings interest income of \$ 50 per year, its current yield will be:

- $\$50/\$1000 \times 100 \% = 5\%$ .

- Bond prices fluctuate in response to changes in interest rate on long-term loans because bond could be sold at a price that exceeds or it is below its face value, depending on what is the interest rate.

- If an investor plans to hold the bond until its maturity date, he will not be interested in a change in the market price of the bond over time, because it guaranteed the payment of its face value at maturity date of the bond.
- If the investor plans to sell the bond before its maturity date, he will be forced to sell it at the current estimated price, which may differ significantly from the nominal value of the paper as the larger and the smaller side.

## *Profitability to maturity*

- When buying bonds at face value of its profitability to maturity are equal to their current profitability and coupon interest rate,
- If the bond is purchased at a premium or discount, its profitability to maturity will be more or less of its current profitability.
- In calculating the profitability to maturity takes into account the sum of all interest payments received by the investor after buying the paper to maturity date, as well as possible damage or capital gains, the investor receives at maturity bonds, if the price of purchase and nominal value are not the same

**The credit quality of the bonds** determined through appropriation bonds credit rating.

**Credit rating** is a rating of the issuer reliability and the chances performance of its obligations

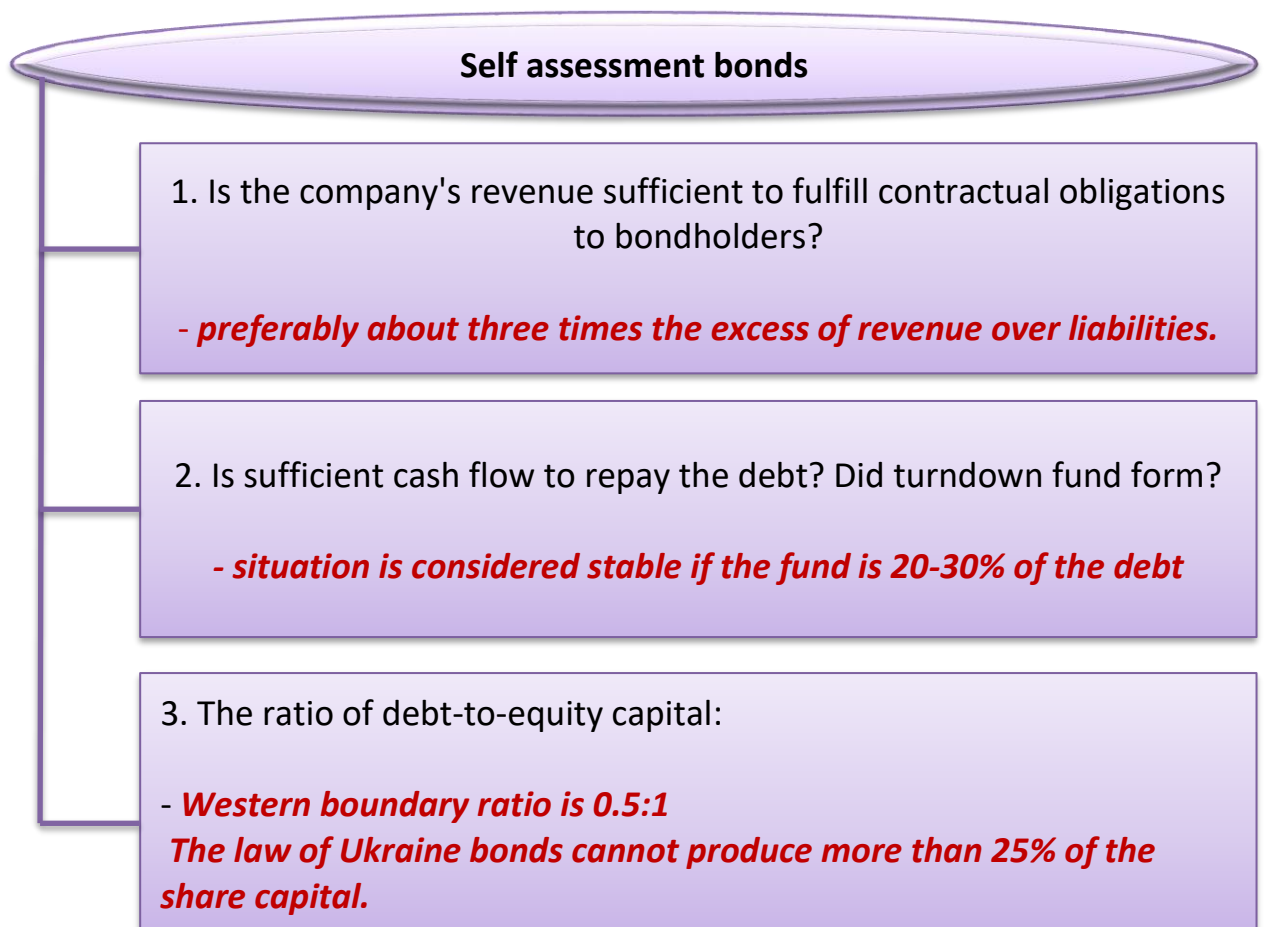
Ratings are assigned **the rating agencies**.

**Prestigious U.S. rating agencies**

- A.M. Best Company, Inc.
- DBRS Ltd.
- Egan-Jones Rating Company
- Fitch, Inc.
- Japan Credit Rating Agency, Ltd.
- LACE Financial Corp.
- Moody's Investors Service, Inc.
- Rating and Investment Information, Inc.
- Standard & Poor's Ratings Services

Moody's		S&P		Fitch		
I	C	I	C	I	C	
Aaa	P-1	AAA	A-1+	AAA	F1+	High level of reliability
Aa1		AA+		AA+		
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+		A+		
A2	P-2	A	A-2	A	F2	The level of reliability is above average
A3		A-		A-		
Baa1		BBB+		BBB+		
Baa2	P-3	BBB	A-3	BBB	F3	The average level of reliability
Baa3		BBB-		BBB-		

Ba1	C	BB+	B	BB+	B	Speculative bonds	
Ba2		BB		BB			
Ba3		BB-		BB-			
B1		B+	B	B+	B	High-Speculative bonds	
B2		B		B			
B3		B-		B-			
Caa1		C	CCC+	C	CCC	C	Significant risk
Caa2			CCC				Extremely speculative bonds
Caa3			CCC-				Default is inevitable with little chance of recovery
Ca	CC						
C	D	/	DDD	/	Default		
/			DD				
/			D				



### ***Questions for control and self-control of knowledge***

1. Based on the analysis of statistical data, describe the scale of Ukraine's issuance of Eurobonds. Why is their yield for investors, as a rule, set higher than that of securities of other countries?

2. Analyze the advantages and disadvantages of individual types of bonds for the issuer and the investor. Which of them could be attractive to you personally as an investor? Justify your position.

3. Find several corporate bond issuers that have the highest rating. Try to explain the reasons for this situation.

4. What rating agencies operate in Ukraine? Analyze the ratings of several bond issuers.

5. Compare the investment attractiveness of preferred shares and corporate bonds? What are the strengths and weaknesses of each of these options for placing funds?

6. Bonds with a face value of \$ 1,000. with a coupon of 8% per annum and a term of 5 years are sold at a discount of -\$ 50. Determine whether investing in these bonds is profitable compared to placing funds in a bank deposit at 9% per annum?

## Chapter 9

### Derivative securities in the international market

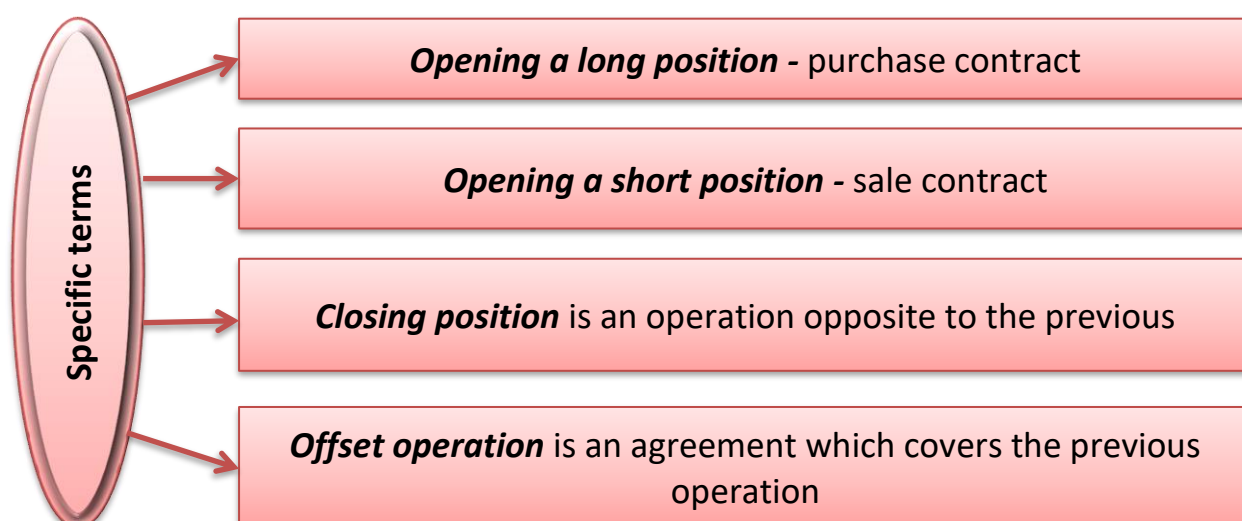
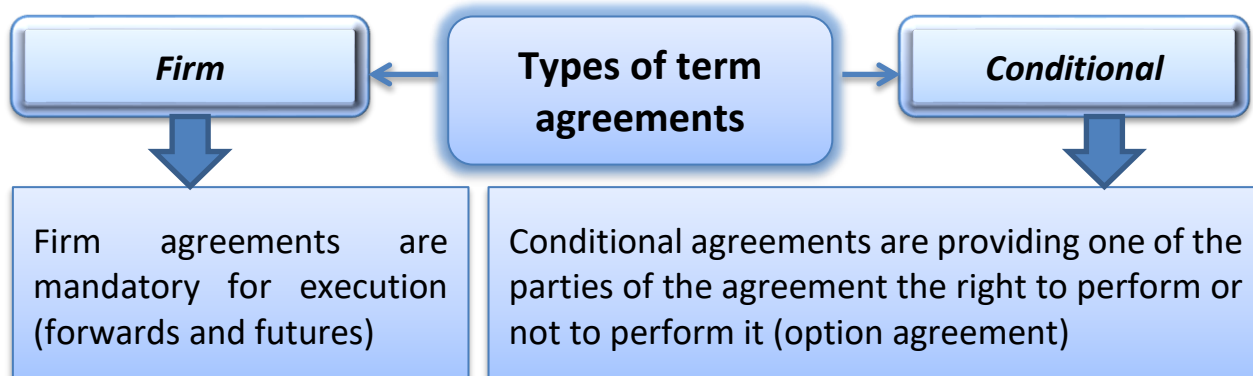
#### Questions that reveal the content of the topic

- 9.1. Derivatives securities: the nature and types
- 9.2. Forward and futures contracts
- 9.3. Option contracts

#### 9.1. Derivatives securities: the nature and types

Securities that capture partners' interim law during the transaction, called **derivatives**.

They do not give their holders any ownership or rights to receive income, but certifying the right to buy or sell securities in the future of a species (usually shares).



## 9.2. Forward and futures contracts

Agreement which provides the immediate delivery of the asset is **called cash or spot** ("spot" means "available"), and the market for such transactions is called **cash or spot**.

Price that arises as a result of making cash (spot) transactions, is called **cash or spot**.

### Forward contract

- there is an agreement between the contracting parties on the future delivery of the contract subject (asset).
- placed outside the stock exchange.
- contract terms stipulated at the time of conclusion of the contract and its performance shall be subject to such conditions within the specified period

Forward contract is concluded usually for making **the real sale or purchase** of the related asset and it is aimed at insurance vendor or purchaser against possible adverse changes to it in the market

Forward contract cannot be negotiated only for insurance (hedging) against possible losses, but **also to play on the difference in market (foreign exchange) asset price**.

In this case, the person who opens a long position (buy contract), looking forward to future growth the asset price and the person who takes a short position (sell contract), relies on decline asset prices

- An agreement concluded outside the stock exchange,
- It is not standard, i.e. the composition of its terms could be arbitrary, but the same conditions could be uncontrollable.
- It reduces the secondary market of forward contracts

- Liquidate their position in a forward contract one party usually has the right only with the consent of the other party.

## Futures contract

- concluded only on the Stock Exchange and it is a standard composition of conditions and procedures for implementation, which develop exchange for each asset.
- Futures contracts are liquid and they have a wide aftermarket.

## TOP 10 Stock Exchanges

- NYSE Euronext
- Tokyo Stock Exchange
- London Stock Exchange
- Shanghai Stock Exchange
- The Stock Exchange of Hong Kong Limited
- The Toronto Stock Exchange
- Frankfurt Stock Exchange
- SIX Swiss Exchange
- Australian Securities Exchange Ltd or ASX
- Korea Exchange, KRX

## Stock exchanges are organized:

- - Private Joint Stock Company (USA);
- - Public and legal institutions (Germany);
- - Securities traders (at least 20) (Ukraine).

The most common model Stock Exchange - Closed Joint Stock Company - combines equal members who bought a place to do transactions on the exchange.

Only members of the a joint stock company are allowed to carry out transactions on the stock exchange

The stock exchange is **not a commercial organization and it does not aim to get benefit**. Its income from the sale of shares of regular membership fees, exchange fees and penalties. Incomes are used to completely cover the costs for maintenance and development activities of the exchange

Classic Exchange is the auction where trade is conducted through the exchange of verbal instructions between traders. Quickly apply electronic exchanges. Saved some of the traditional ones.

### ***The key concept of stock trading - liquidity***

#### **A liquid market is characterized by:**

- - Frequent transaction;
- - Narrow the gap between the asking price and the price the buyer;
- - Minor fluctuations prices from agreement to agreement.

#### **Principles of the Stock Exchange**

■ - Personal trust (often agreements on the Exchange concluded orally and issued later);

■ - Transparency (publication of information about all agreements and their contents);

■ - Strict control over compliance with financial, administrative, sales and accounting rules.

Different committees are created in exchange. Two are required:

**Committee listing (considering an application for inclusion of securities to listing)**

**Committee on the shop floor procedures (including administration defining the trade mode)**

**Listing** is a procedure for inclusion of securities in the list of those what publicly traded

**Benefits of entering in the listing::**

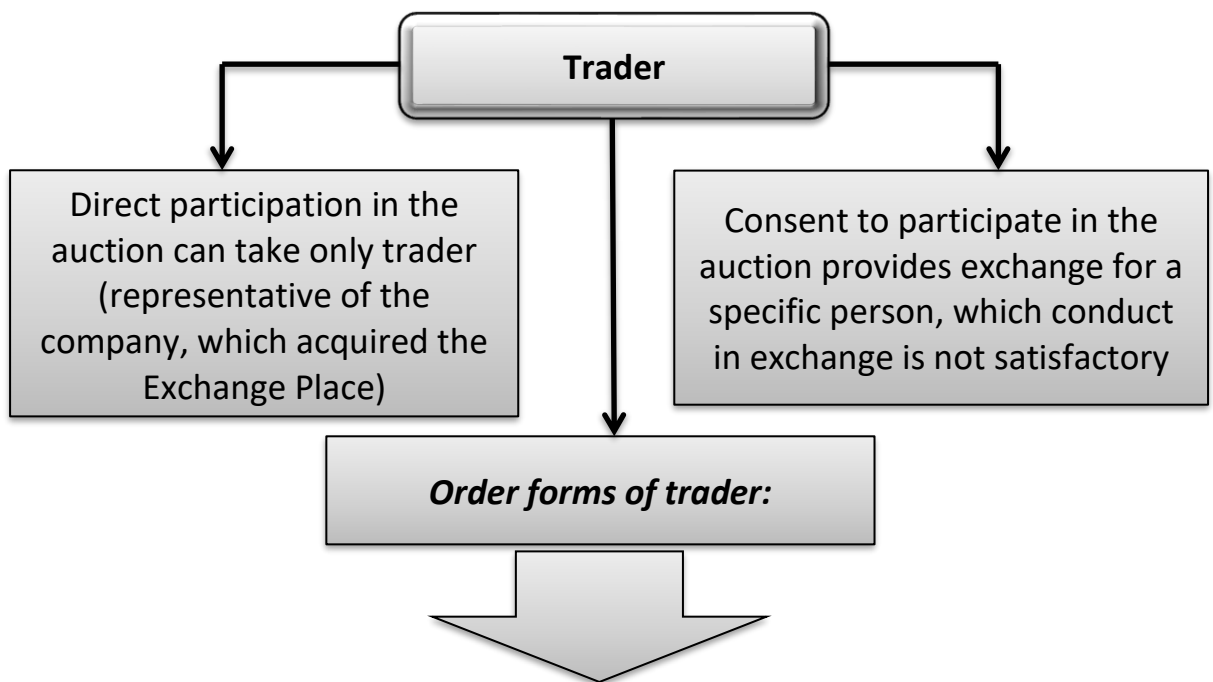
- - Investors prestige;
- - Better credit conditions;
- - Excellent visibility of the market;
- - Provides an objective assessment of the value of shares for tax purposes;
- - More attention from potential investors.

**Disadvantages of listing:**

- - Additional control over the company;
- - Additional costs (exchange listing fee, annual listing fee for support, etc.);
- - Openness of information, which is known not only to potential investors, but also competitors.

**Company's requirements for including in the listing:**

- - profitability (profit margins over the last year profitability during the period);
- - Minimum working capital;
- - Minimum net intangible assets.



- 1. **Market order** - buy or sell at the best price of the market
- 2. **Limit order** - set price or the best possible price if the trader is able to do it
- 3. **Daytime order** - valid for "today"
- 4. **Open order** - established validity
- 5. **Everything or nothing** - a clearly defined amount of shares. Do not allow partial fulfilment
- 6. **Reception in any way** - is the most democratic order
- 7. **The order "either-or"** - if a trader takes one orders, the other is automatically removed
- 8. The order of switching - proceeds from the sale of some securities can be used to purchase other
- 9. Contingent order - simultaneous sale of some shares and purchase other
- 10. The emergency order - is enforceable as a market where the price falls below a certain mark

## Technology futures trading

Futures contracts is by nature speculative. Therefore, the decision sell or buy is not determined by the need for shares of the company, and the forecast change in prices

If a stock gambler believes that the company's stock price will be greater than the contract price, he buys stocks. If the opposite - he sells them. In this absolutely does not matter if he has these shares or he does not have

The agreement of purchase and sale is not concluded between traders and between each of them and Clearing House exchange  
"I pledge to buy 100 shares of the N company 25 August 2024 at a price of \$ 12 per share. "  
At the conclusion of the contract the buyer pays commissions and margin.

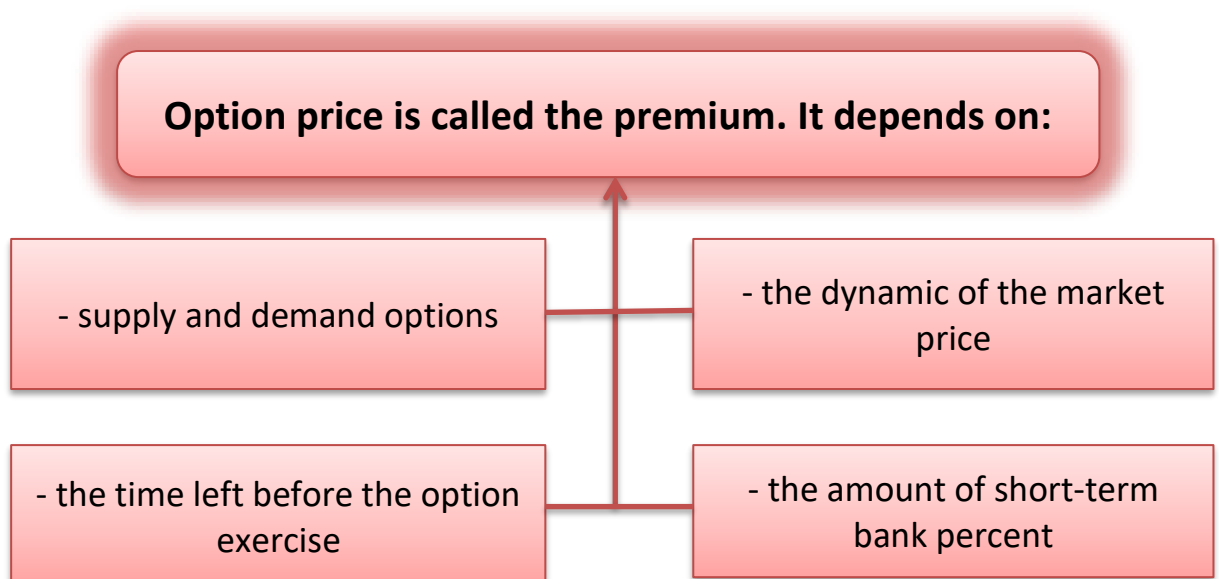
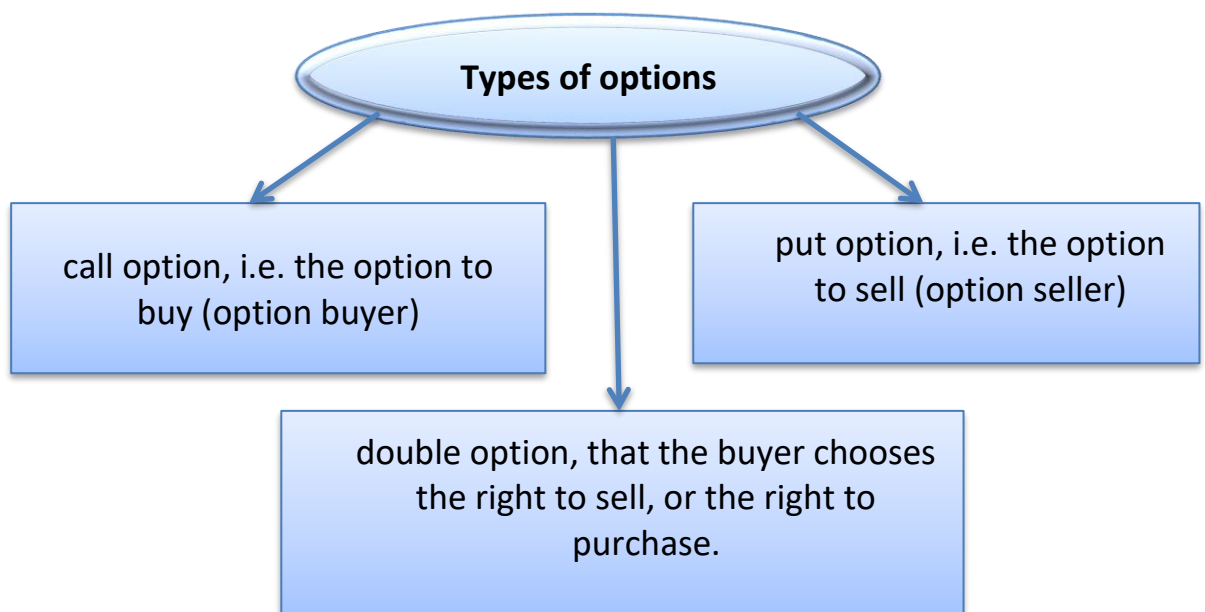
If the shares price is reduced (buyer lose) and the difference between the market price and the contract price exceeds the margin, the buyer within one day should initiate a difference in the clearing house.  
In case of violation of the conditions clearinghouse may unilaterally terminate the contract and remove the trader to participate in the exchange

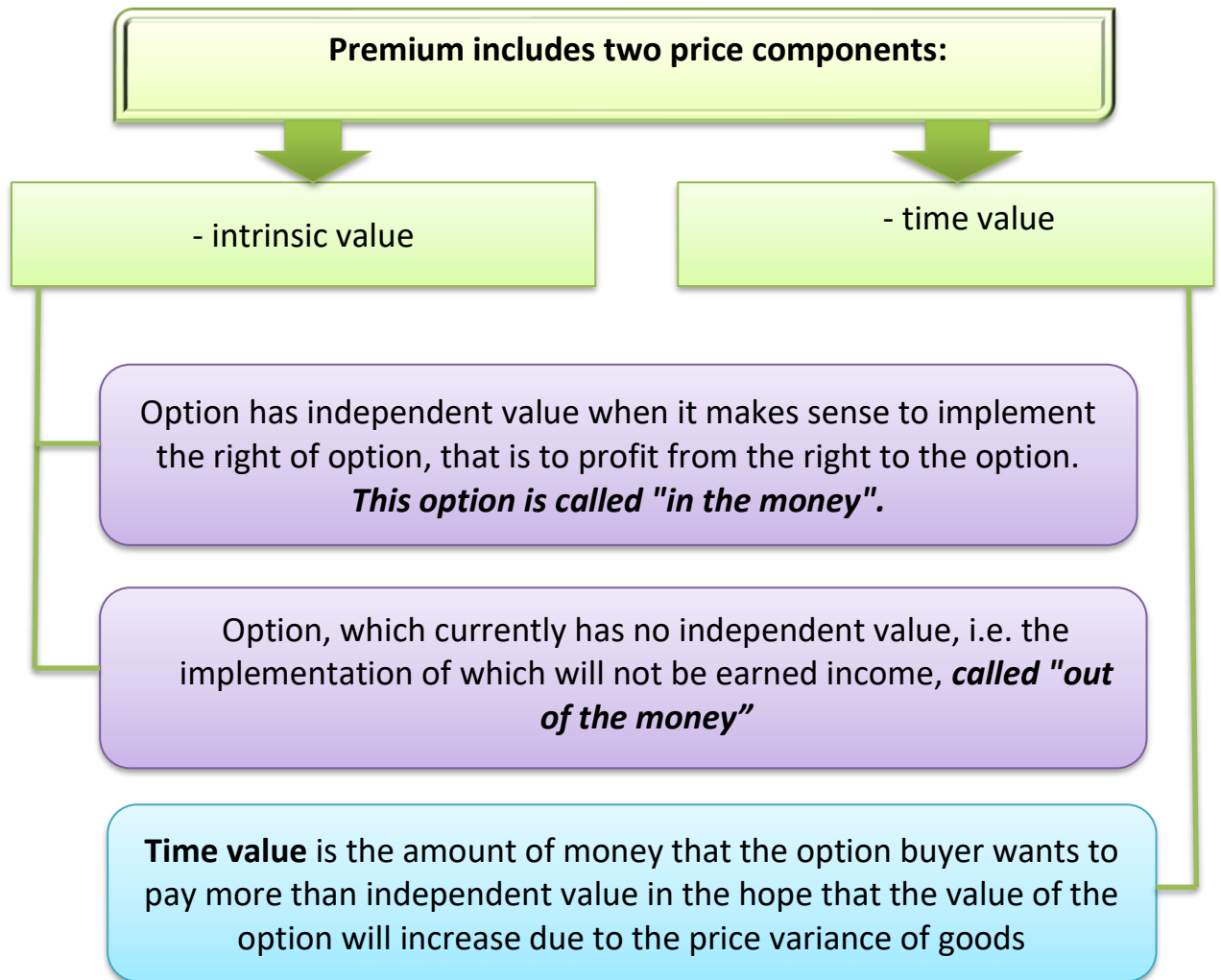
Buyer at any moment could close his position by selling the contract and completing with the Clearing House payments, depending on winning or losing.

**If at the time of the contract the shares price appeared 13 USD, Clearing house purchases the buyer's right to purchase the shares for 12 USD, paying him the difference (in this case 100 USD)**

### 9.3. Option contracts

**The word "option" means choice.** The choice is given to the buyer of the option. The option owner has the right to conduct transactions with securities but he is not required to perform this operation. An option is a standard agreement. It indicates the amount of assets, the price of the contract and the date of the transaction





### ***Questions for control and self-control of knowledge***

1. Using the materials of one of the world's well-known stock exchanges, analyze the dynamics of prices for futures contracts for the purchase and sale of securities. Choose shares of any company for yourself and offer a conditional contract for a transaction with them with an execution date in two weeks. At the appointed time, check the reliability of your forecast regarding changes in prices for the shares you have chosen. Evaluate the financial result of your conditional investments.
2. Using the materials of the stock exchanges of Ukraine, find out what futures contracts are concluded on them. Describe the scale of the corresponding transactions.
3. Find out what factors hinder the development of options trading on Ukrainian stock exchanges.
4. Register on the website <http://www.investopedia.com/n/nyse.asp> and try yourself as an investor.

## Chapter 10

### Stock market indexes and investment ratings

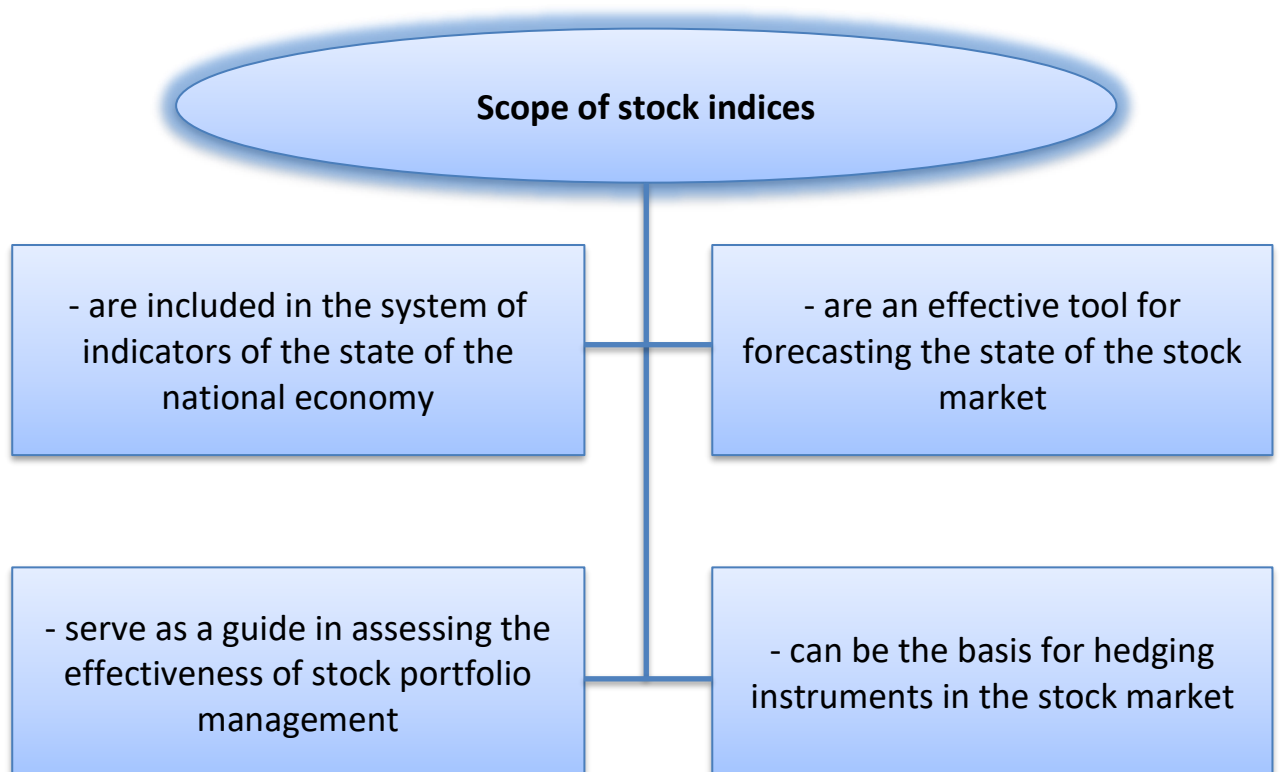
#### Questions that reveal the content of the topic

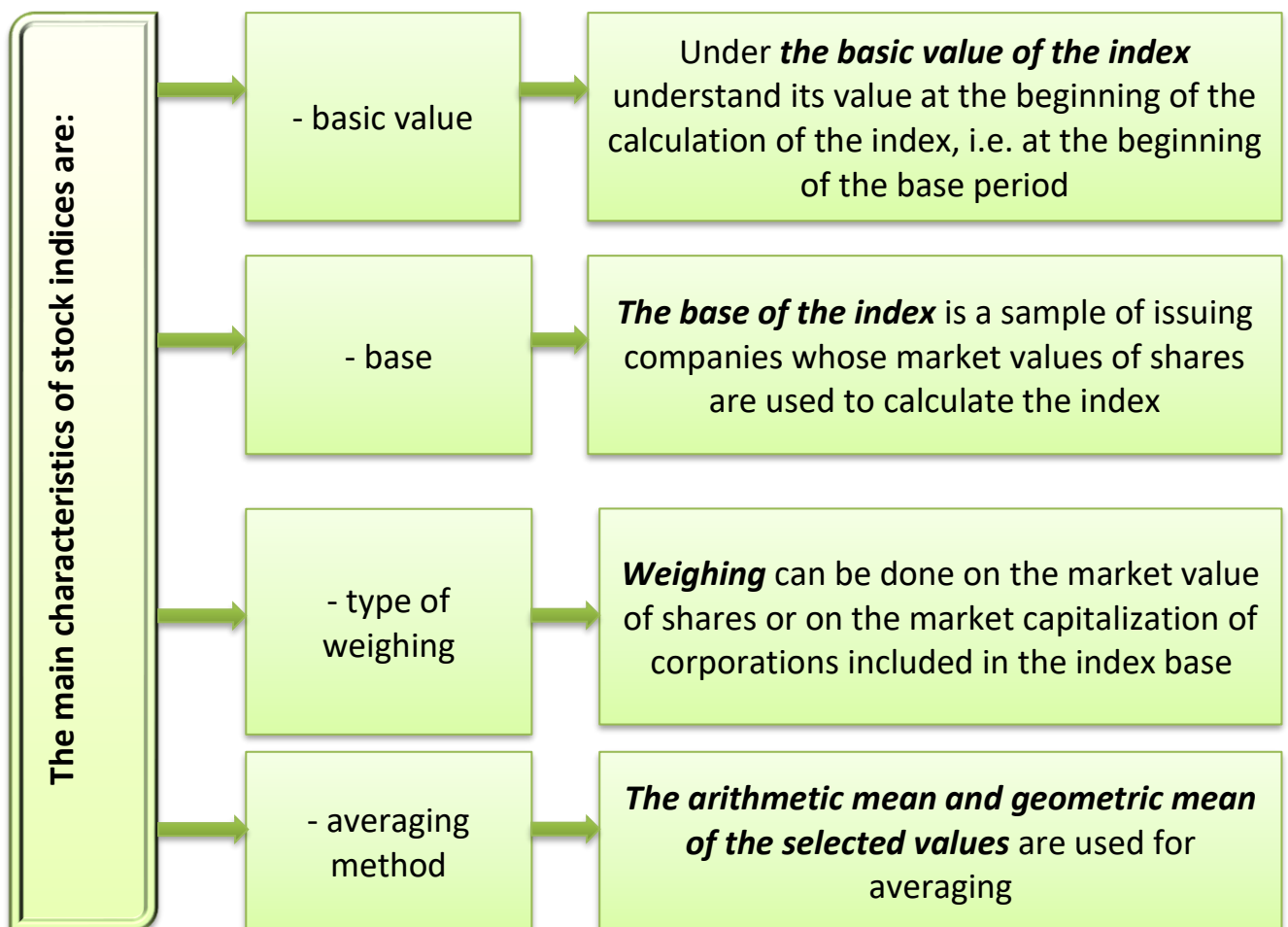
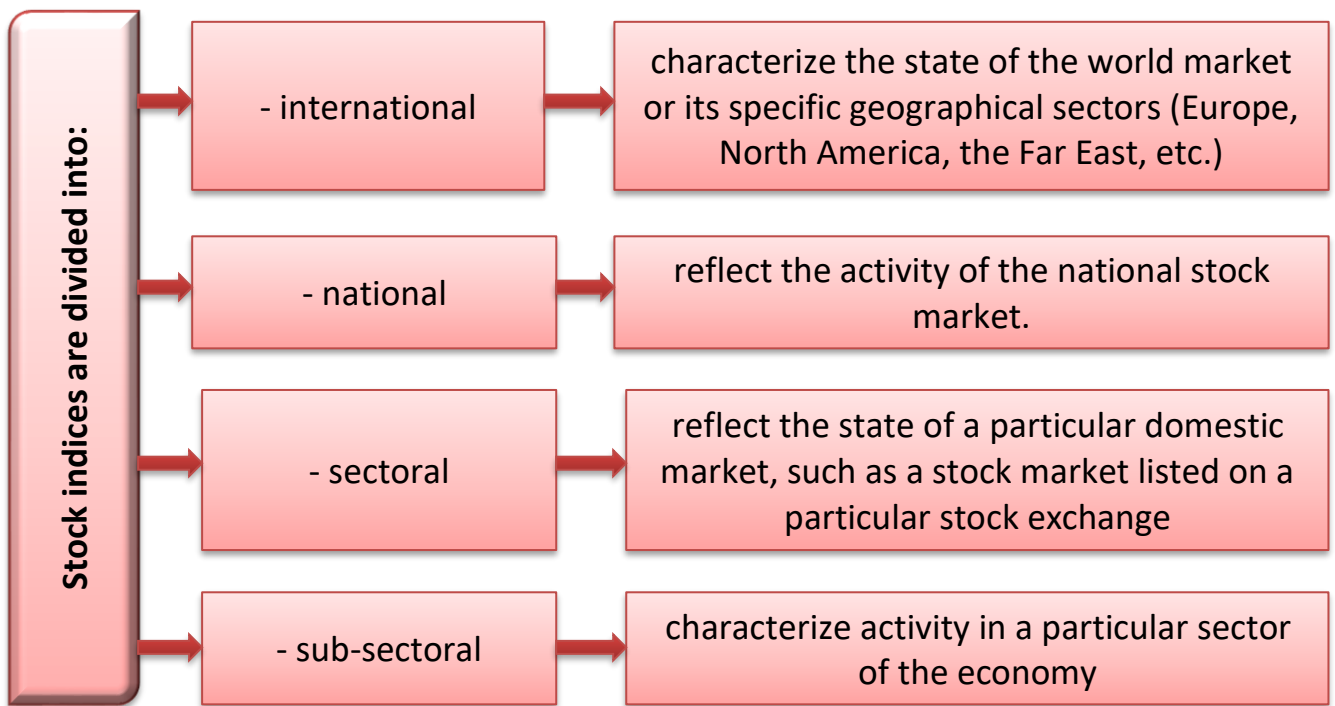
10.1. Stock market index. General concepts and calculation method

10.2. Investment rating agencies and investment ratings

#### 10.1. Stock market index. General concepts and calculation method

**Stock market index** called a number that characterizes its quality and condition with a rough estimate of the dynamics of the stock market. By itself significance of this number does not have valuable information. It was not exactly the value of that number, and its relationship to the values that it took before.





**The most common types of stock indices:**

- price average indices

- indices weighted by the market value of shares or weighted by the market capitalization of a particular group of corporations

**Approaches to the calculation of indexes**

1. Selected a representative group of stocks (usually no shares of the largest companies) and taking into account the market shares at the date of settlement and number issued shares is calculated index value:

$$I = c(A_1P_1 + A_2P_2 + \dots + A_nP_n),$$

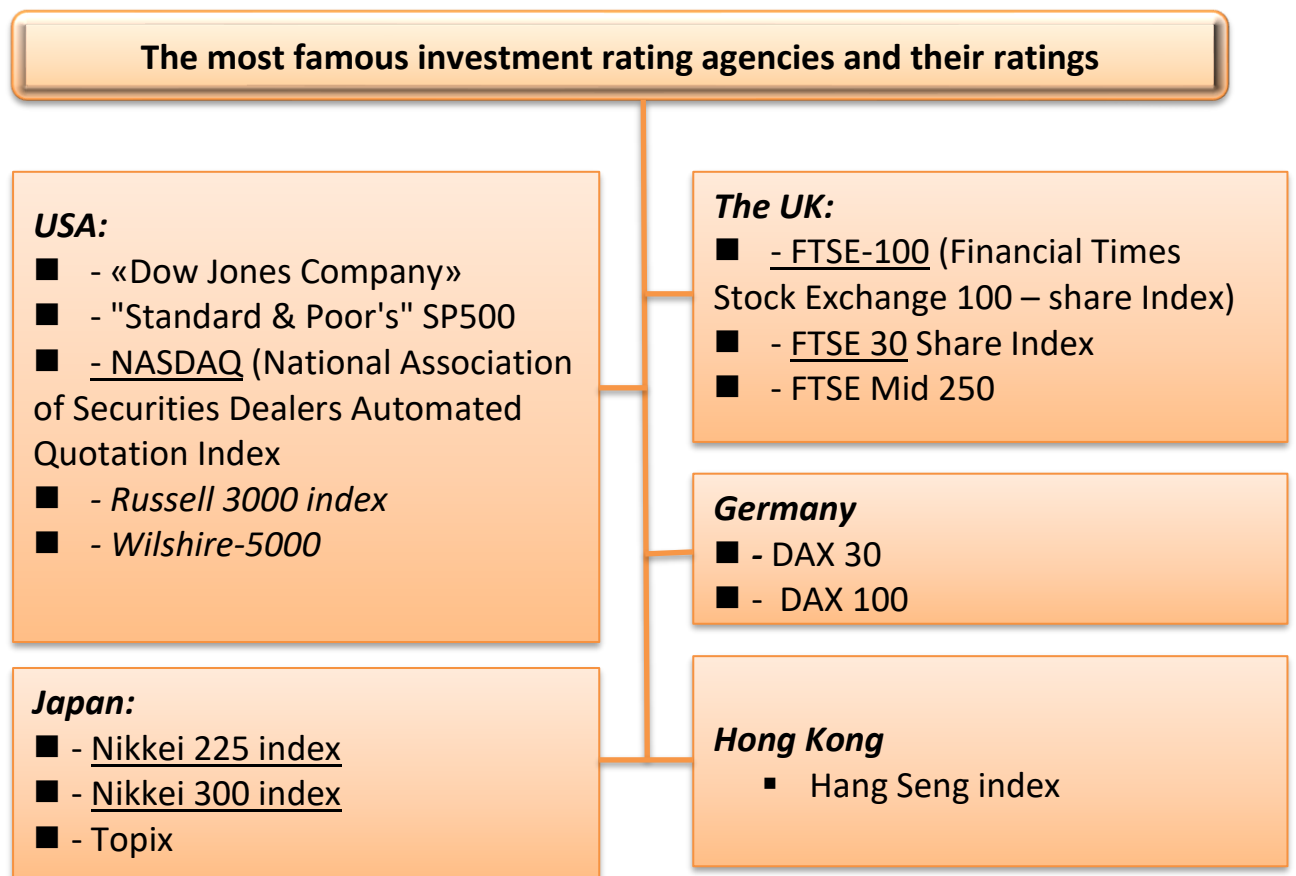
where  $C$  - ratio (or as it is called in the literature devizor), which serves to correct the index if you change the number of companies included in the index, in the case of replacement companies conducting stock split;  
 $n$  - the number of companies included in the index calculation;  
 $A$  and  $X$  - respectively the number and price of companies shares included in the reference base index.

2. Selected a representative group of shares and the price amount of shares at a given time is determined. As a result, have a medium indicator:

$$Ind = c(P_1 + P_2 + \dots + P_n).$$

Conventional signs are identical as in previous case.

## 10.2. Investment rating agencies and investment ratings



### Dow Jones Industrial Average

Dow Jones Industrial (or average Dow Jones) was first calculated in 1896 for shares of 12 industrial companies, and this index has evolved today and it is widely known and popular Dow Jones Industrial Average

From 1928 till the present time this indicator covers the 30 largest high quality industrial companies of U.S., stocks behavior which is considered representative for the overall dynamics of the security market. Shares of these companies are called "blue chips»

***The companies included in the DJIA and ticker symbol***

<b>Ticker symbol</b>	<b>Company name</b>	<b>Ticker symbol</b>	<b>Company name</b>
<u>AA</u>	Alcoa Inc.	<u>IBM</u>	Int'l Business Machines Corp.
<u>AXP</u>	American Express Company	<u>INTC</u>	Intel Corporation
<u>I</u>	AT & T Company	<u>IP</u>	International Paper Co
<u>BA</u>	Boeing Company	<u>JPM</u>	J.P. Morgan Chase & Co
<u>CAT</u>	Caterpillar Inc.	<u>JNJ</u>	Johnson & Johnson
<u>C</u>	Citigroup Inc.	<u>MCD</u>	McDonald's Corporation
<u>KO</u>	Coca-cola Company	<u>MRK</u>	Merck & Co. Inc.
<u>DD</u>	E.I. DuPont de Nemours & Co	<u>MSFT</u>	Microsoft Corporation
<u>EK</u>	Eastman Kodak Company	<u>MMM</u>	3M Co
<u>XOM</u>	Exxon Mobil Corporation	<u>MO</u>	Altria Group Inc.
<u>GE</u>	General Electric Company	<u>PG</u>	Procter & Gamble Co
<u>GM</u>	General Motors Corporation	<u>SBC</u>	SBC Communications Inc.
<u>HPQ</u>	Hewlett-Packard Company	<u>UTX</u>	United Technologies Corp.
<u>HD</u>	Home Depot Inc.	<u>WMT</u>	Wal-Mart Stores Inc.
<u>HON</u>	Honeywell International Inc.	<u>DIS</u>	Walt Disney Company

### ***Other Dow Jones Average:***

1. Dow Jones Transportation Average (Dow Jones Transportation Average), the estimated base composed of 20 transport companies
2. Dow Jones Utilities Average (Dow Jones Utilities Average), which includes 15 electricity utility companies
3. Dow Jones Composite Average (Dow Jones Composite Average), including 65 listed above companies (DJIA-30, DJTA-20, DJUA-15)

### ***Standard and Poor's 500 Composite Stock Price Index***

This index was designed by the famous publisher of financial news corporation Standard and Poor's in the 20's of the last century and initially it consisted of only 90 companies (among the 500 in the name of the index did not yet exist).

Unlike Dow Jones Average in calculating the S & P 500 are counted as equity prices included in the assessment base and the number of shares of each company that are traded on the market, and the resulting value is correlated with the base index value (equal to 10) calculated for the period of 1941-1943 years

Today the S & P 500 reflects the dynamics of almost 70% of the capital invested in the U.S. equity market

**NASDAQ**  
**( National Association of Securities Dealers Automated Quotation Index)**

It is the youngest of the listed above indexes. It was developed in February 1971.  
The method of calculation is identical to calculating the S & P 500. According basic equal to 100, the value of shares taken on February 5, 1971

**Russell 3000 index**

includes 3,000 companies with the highest value of shares (share price multiplied by number). This index, developed in 1984 by Frank Russell, reflects 98% of the total capital invested in the U.S. equity market.

Index Russell 3000 is divided into two major indices: Russell 1000 and Russell 2000.

Russell 1000 includes 1,000 companies with the highest value of shares, which account for about 92% of the total capitalization of the companies included in the Russell 3000.

Russell 2000 covers the last 2000 companies. Russell 2000 is a very important index for investors. It is used to analyze the behavior of stocks compared small companies.

**Wilshire-5000**

The index has appeared in 1974 and since has become quite famous because it regularly published in many reputable media outlets, including «The Forbes», «The Barren's», «The Wall Street Journal» and others. It represents the total cost of 5000 share issues (in billions of dollars.) With the highest sales volume in the stock markets, including all shares that are traded on the New York and American stock exchanges, and the most active stocks over-the-counter trading.

Most of the large and small investors in the U.S. uses mainly three indexes:  
***Dow Jones Average, S&P 500 ma NASDAQ.***

***Tasks for control and self-control of knowledge***

1. Based on the data on the dynamics of the Dow Jones Composite Average index over the past month. Try to explain the reasons for its fluctuations.
2. Compare the changes in the values of the main stock indices over the past few months. How can we explain that their dynamics are somewhat different?
3. What stock indices are used on the Ukrainian stock market? What factors determined their dynamics in recent months?

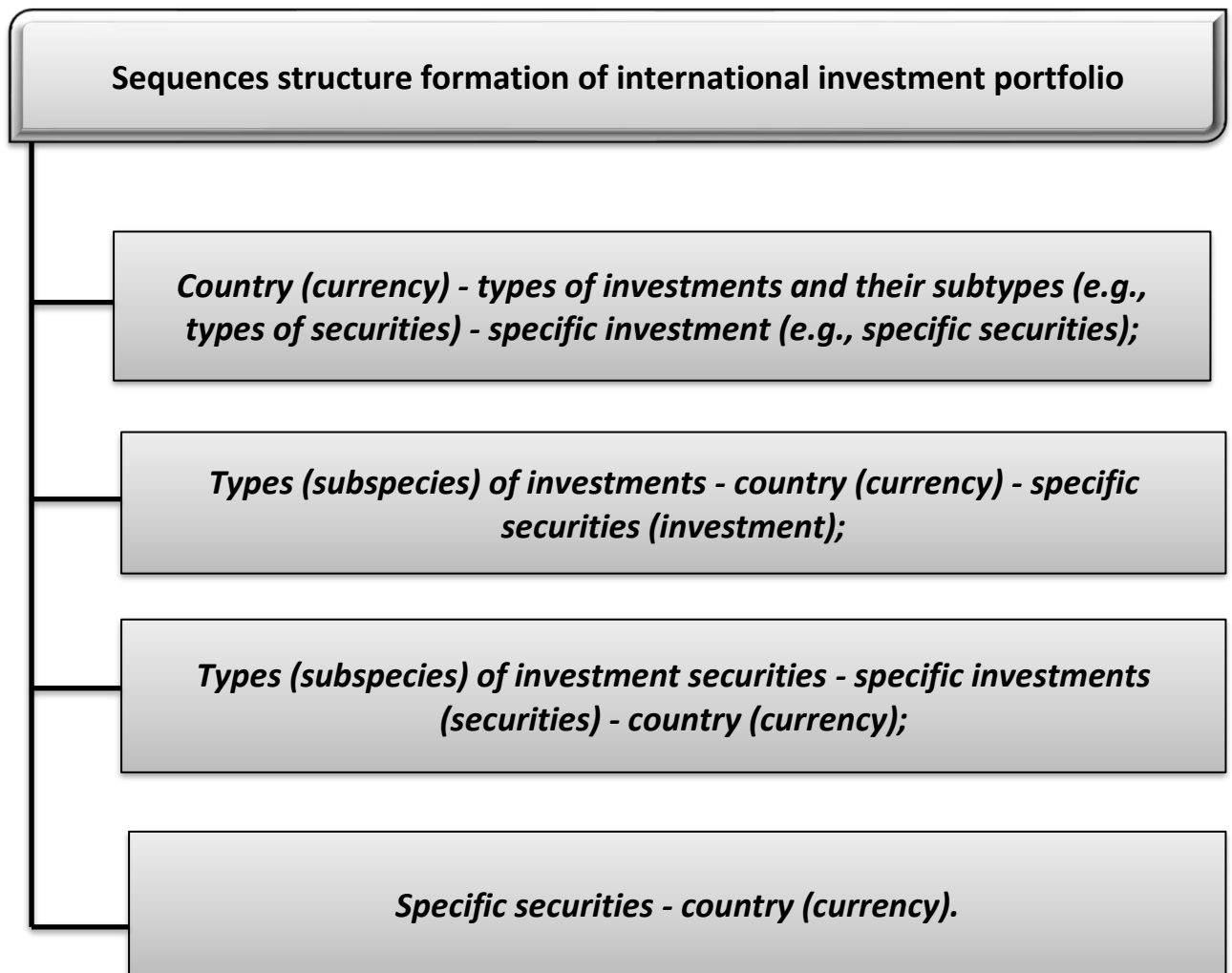
## Chapter 11

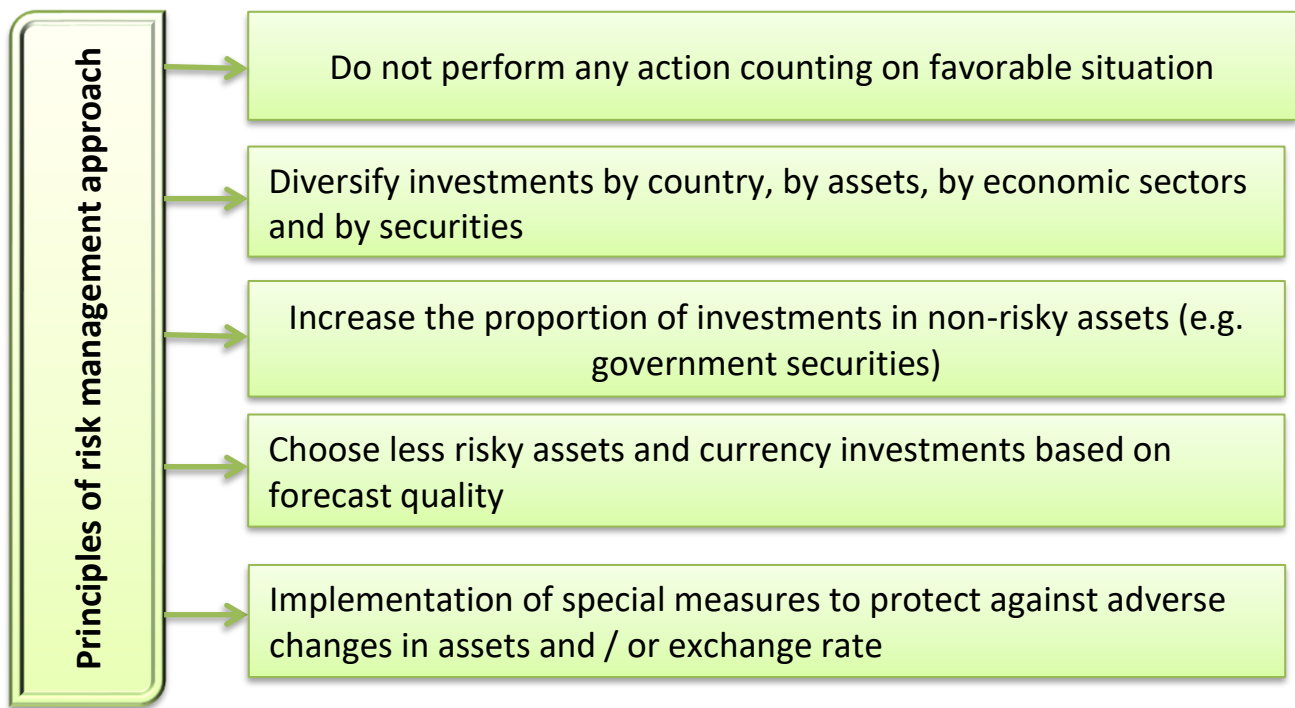
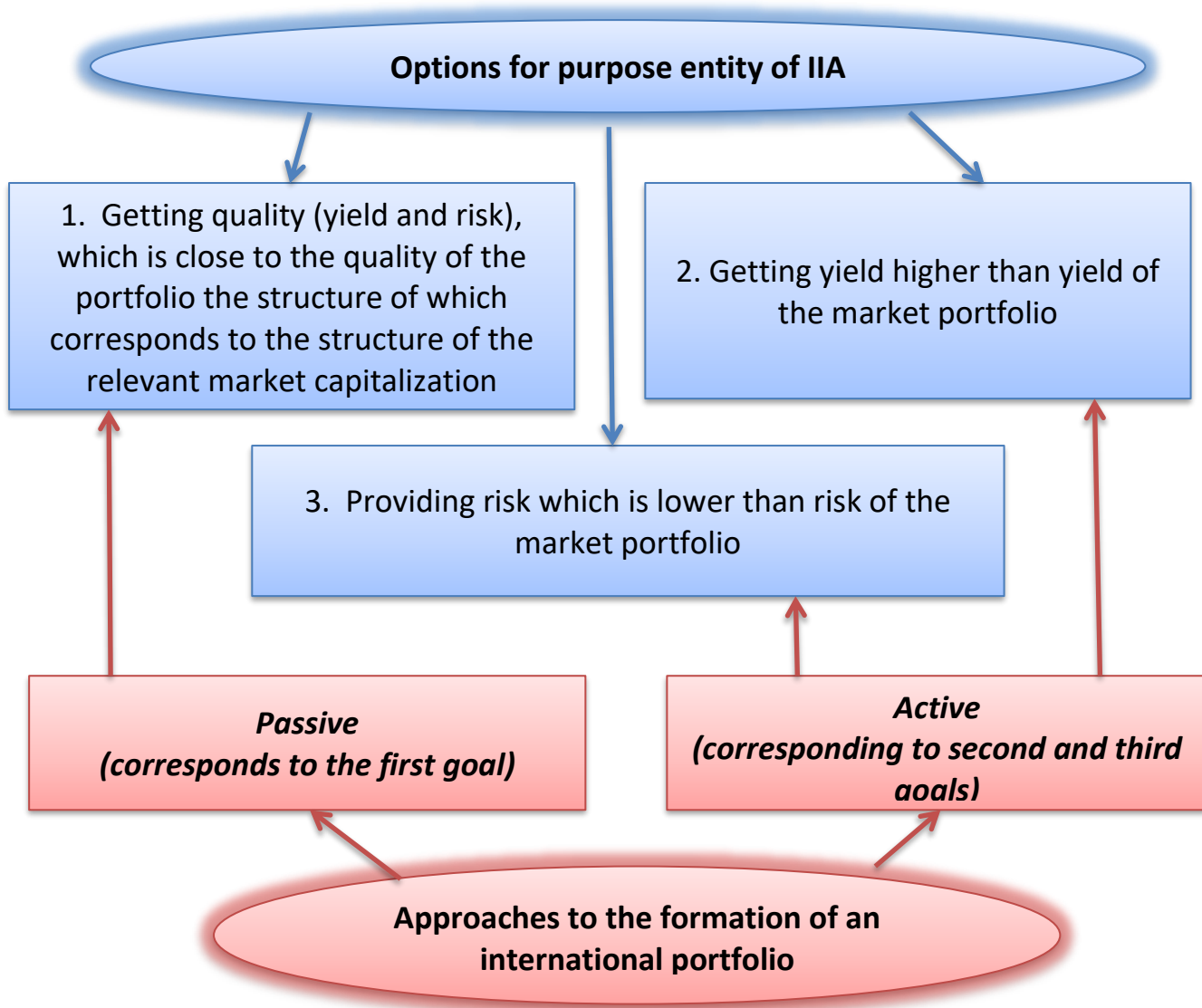
### Portfolio management of international investments

#### *Questions that reveal the content of the topic*

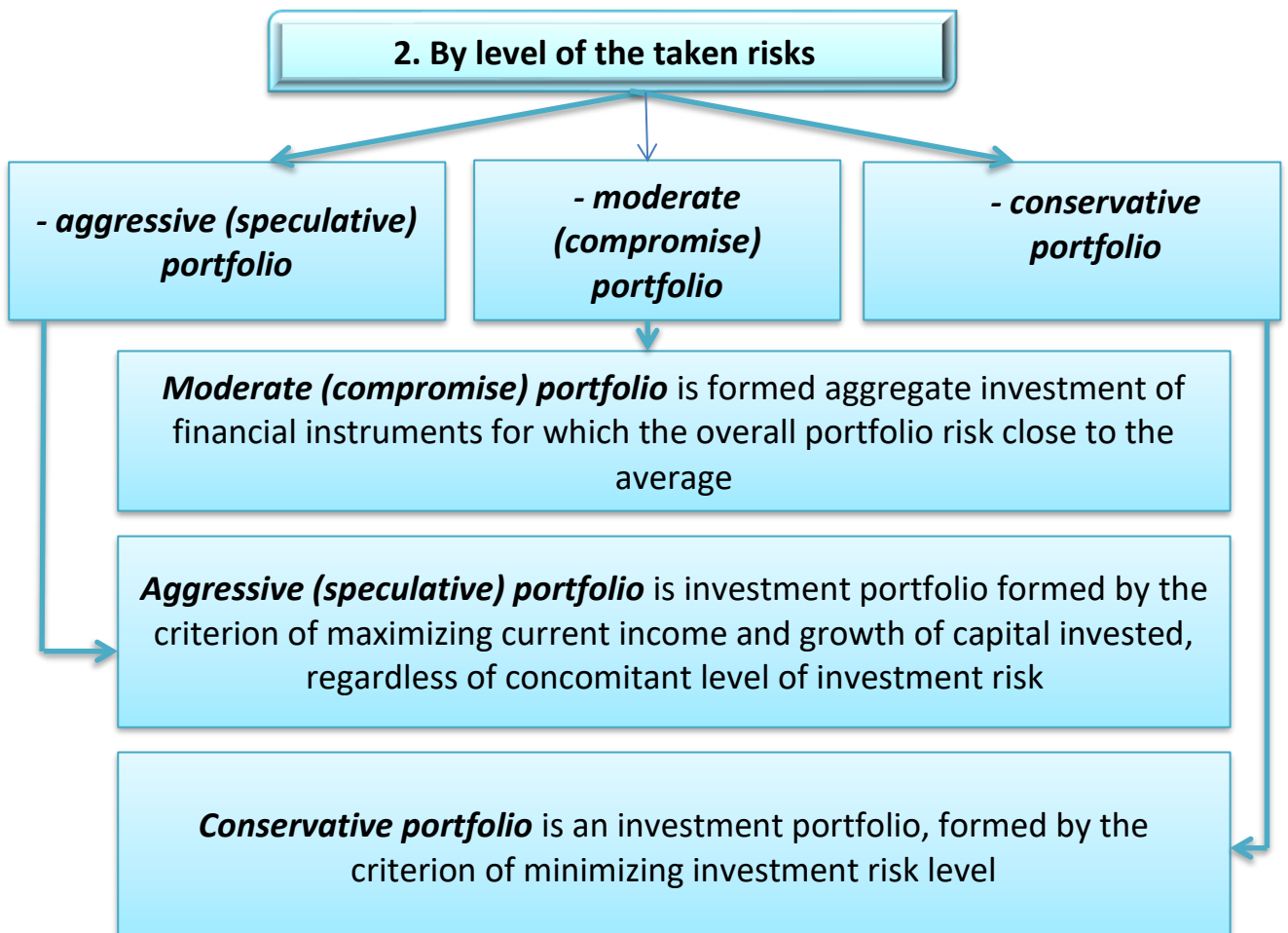
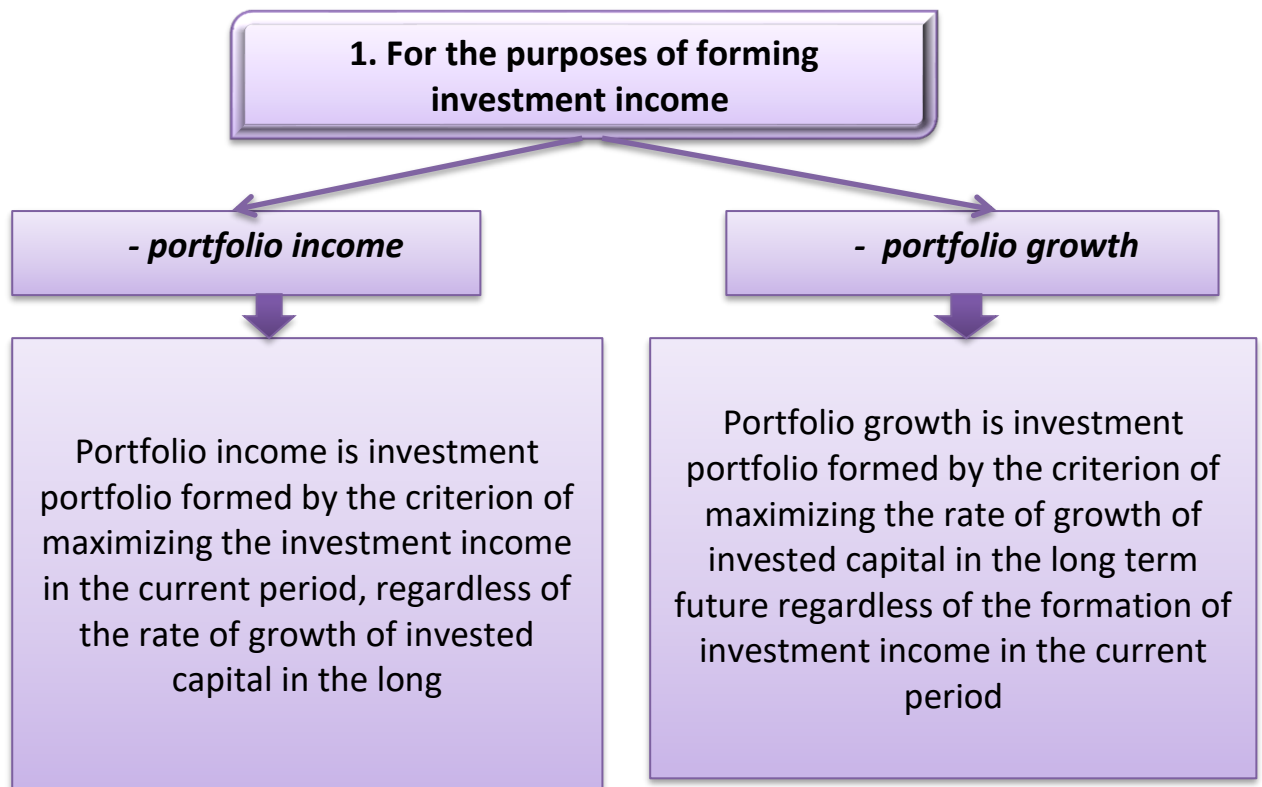
- 11.1. A portfolio of international investments: passive and active approaches
- 11.2. Typification of investment portfolios
- 11.3. Formation of a portfolio of financial investments based on modern portfolio theory
- 11.4. Operational management restructuring portfolio of financial investments

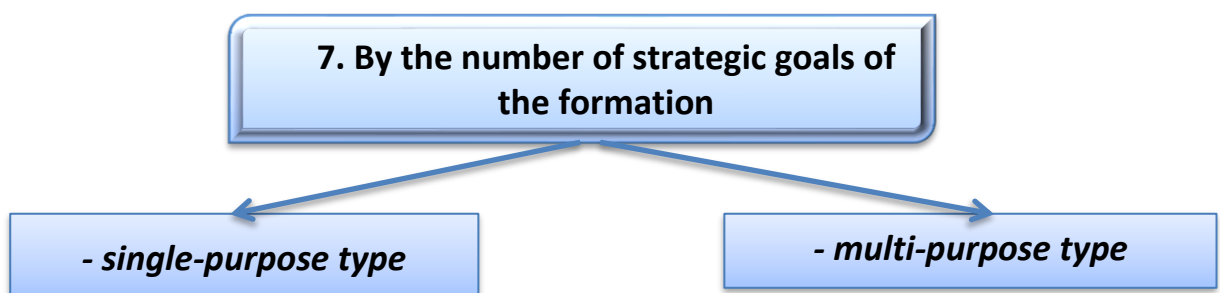
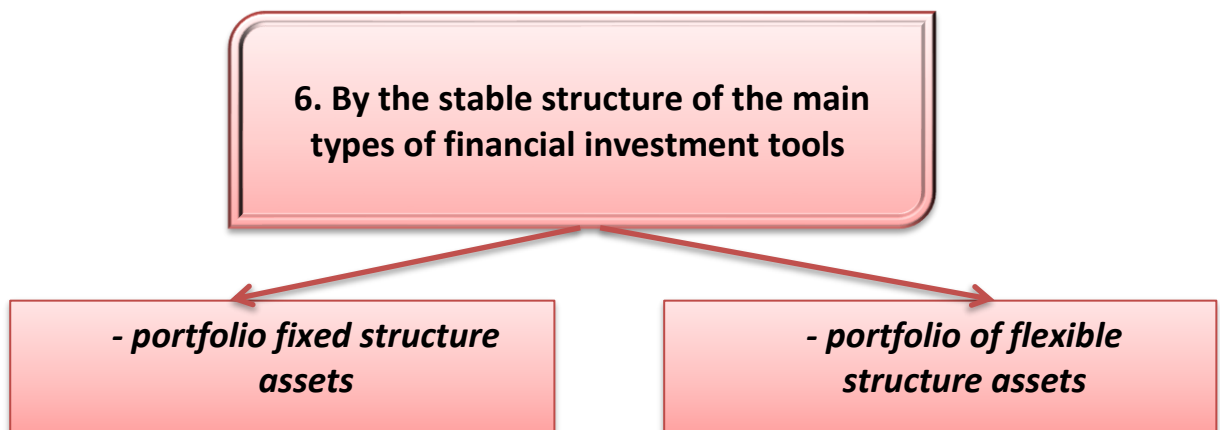
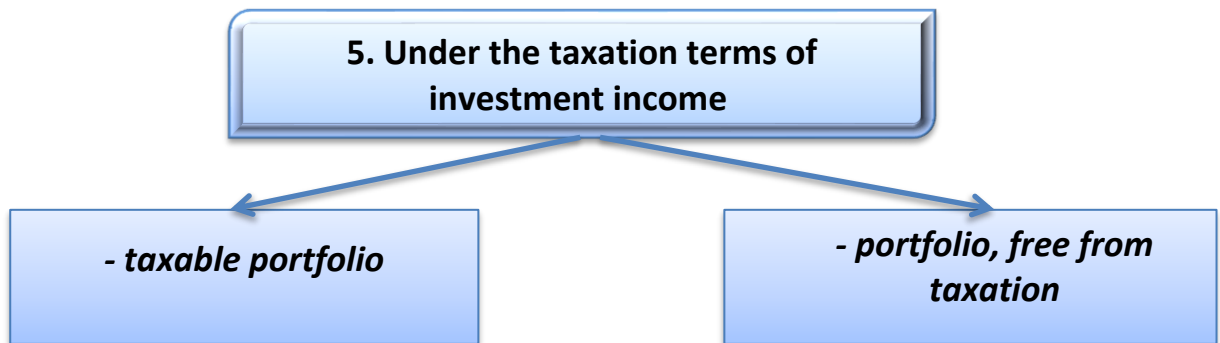
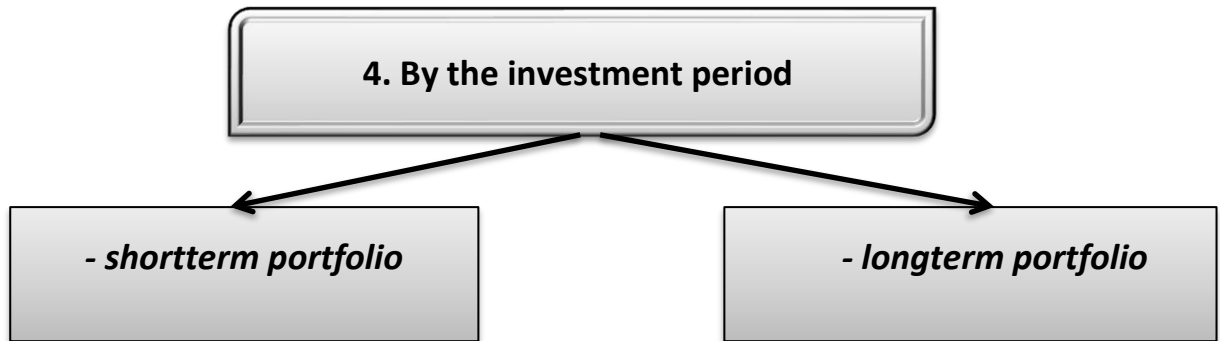
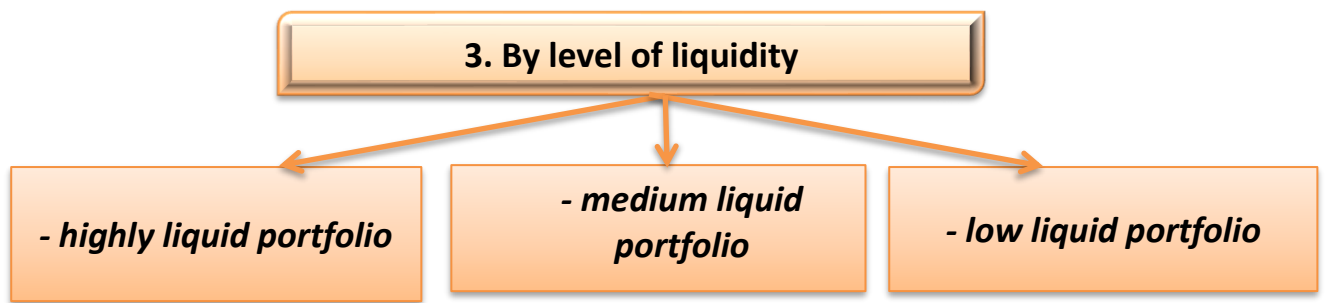
#### **11.1. A portfolio of international investments: passive and active approaches**

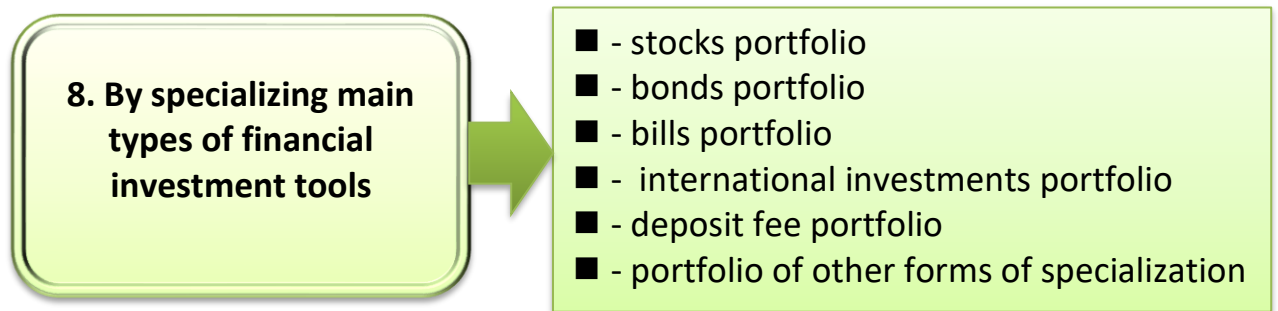




## 11.2. Typification of investment portfolios

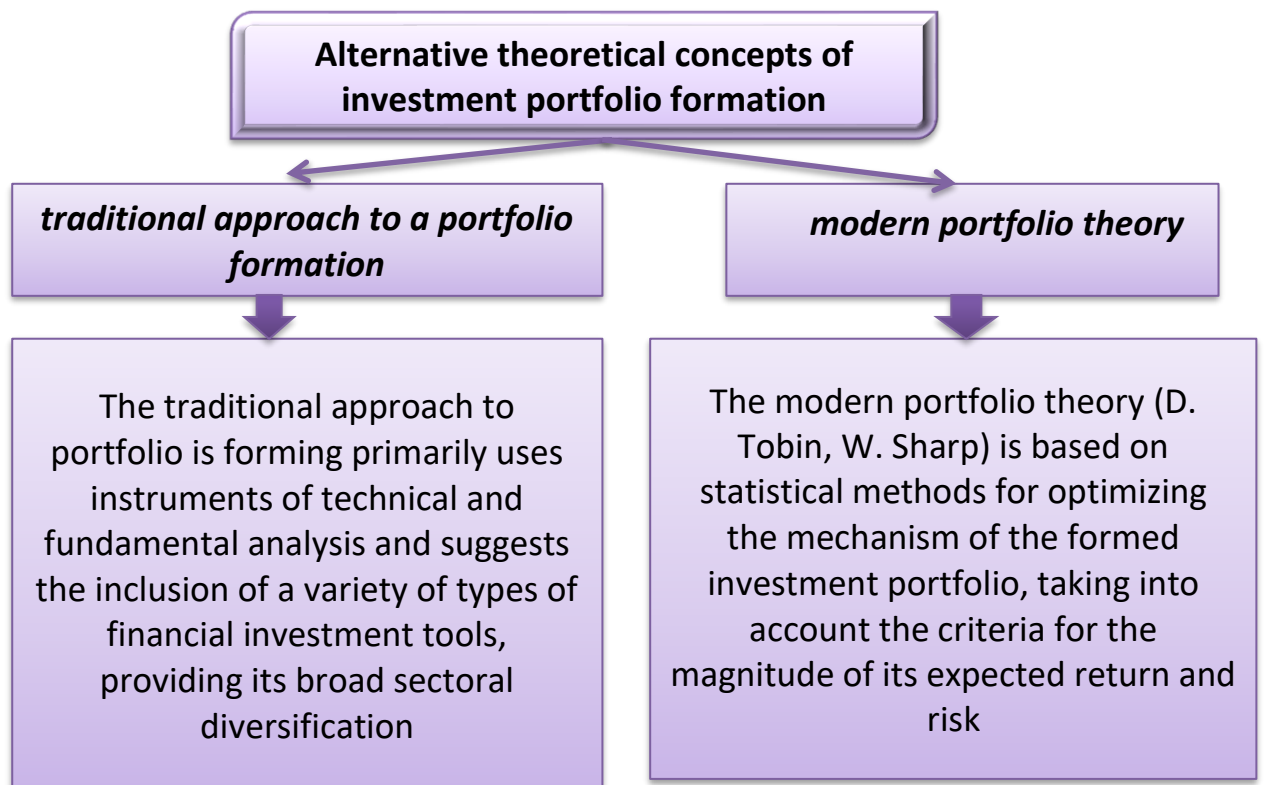






- 1) aggressive portfolio of income (speculative portfolio of income);
- 2) aggressive portfolio of growth (portfolio of accelerated growth);
- 3) moderate portfolio of income (portfolio of normal income);
- 4) moderate portfolio of growth (portfolio of normal growth);
- 5) conservative portfolio of income (portfolio of guaranteed income);
- 6) conservative portfolio of growth (portfolio of guaranteed growth).

### 11.3. Formation of a portfolio of financial investments based on modern portfolio theory



## Assessment of the basic parameters of the prevailing investment portfolio

The profitability rate of the portfolio is calculated as follows:

$$PLp = \sum_i^n (Pli \times Li)$$

where  $Plp$  - profitability level of the investment portfolio;

$PLi$ — profitability level of certain financial instruments in the portfolio;

$Li$  - the proportion of certain financial instruments in an aggregate value of the investment portfolio, expressed in decimal fraction

The level of risk of the portfolio is calculated as follows:

$$RLp = \sum_i^n (LSRi \times Li) + LURp$$

where  $RLp$  — risk level of investment portfolio;

$Lsri$  — level of systematic risk of certain financial instruments (measured by beta coefficient);

$Li$  - the proportion of certain financial instruments in an aggregate value of the investment portfolio, expressed in decimal fraction;

$LURp$  — unsystematic risk portfolio level achieved in the process of diversification

The investment portfolio that is consistent with the objectives of its establishment as the type and composition included in the financial instruments it represents a "balanced starting investment portfolio"

### 11.4. Operational management restructuring portfolio of financial investments

***Under the operational management restructuring of a portfolio of financial investments*** is understood justification and implementation of management decisions, providing support to target investment portfolio orientation formed the parameters of its profitability, risk and liquidity by rotation of some of its tools

## Stages of the operational management process

### **1. Organization of continuous monitoring conditions of economic development and investment market conditions in terms of its individual segments**

In order to monitor the focus should be given to identify the dynamics of the factors influencing the decline in profitability, risk and liquidity of financial instruments that are part of a portfolio of businesses

#### **Factors that reduce the return rate of equity securities**

1. The decline in dividends paid as a result of reducing the profit of the issuer.
2. Reducing the rate of growth of the net assets of the issuer (or decrease their amount).
3. The conjuncture downturn in the industry in which the issuer conducts its operations.
4. A significant excess of the market price of a financial instrument over its real value at the time of acquisition by the investor.
5. The overall decline in stock market conditions.
6. Improving the taxation of investment income on equity instruments.

#### **Factors which reduce yield debt securities**

1. The increase in the average interest rate on the financial market.
2. Increase the rate of inflation over the previous period.
3. Reduction of solvency (credit rating) of the issuer of debt financial instruments.
4. A contingent reduce the size of the indemnity fund (sinking fund) of the issuer of the present financial obligations.
5. Reduction of the liquidity premium on long-term debt financial instruments.
6. Improving the taxation of investment income on debt instruments.

**2. Effective evaluation of profitability, risk and liquidity formed portfolio of investments in dynamics**

The evaluation results are the basis for management decisions and directions about the need to restructure the portfolio of financial investments

**3. Choosing fundamental approaches to operational restructuring portfolio of financial investments of the company**

*A passive approach to portfolio management based on the principle of "passage in the fairway of the market."*

*In most passive approach reflects the mentality of the conservative type of portfolio formation.*

*An active approach to portfolio management based on the principle of "proactive market."*

*In most proactive approach to portfolio management reflects the aggressive mentality of its formation.*

**4. The restructuring of the portfolio by major types of financial investment tools:**

a permanent (fixed) or variable (flexible) ratio speculative and conservative parts of a portfolio of financial investments

**5. Restructuring for specific kinds of financial investment tools**

Methods such a fundamental restructuring of the portfolio determined approach to its management

## **6. Timing of restructuring transactions portfolio of financial investments**

The principle of determining the time of such agreements (known as the "golden rule of investment") embedded in the formula - "buy cheap, sell expensive"

## **7. Justification alternative orders to broker transactions, providing portfolio restructuring**

There are two basic types of orders to broker transactions that provide restructuring - "market" and "limit".

### **Tasks for control and self-control of knowledge**

1. Build several options for the sequence of forming the structure of an international investment portfolio, taking specific countries and specific securities as examples. What are the advantages and disadvantages of each of the options for forming a portfolio?
2. What special measures can an investor take to protect himself from adverse changes in the value of assets that form his portfolio?
3. How can the degree of liquidity of an international investment portfolio be increased? Why is liquidity considered one of the most important indicators of the quality of an investment portfolio?
4. How does modern portfolio theory fundamentally differ from the traditional approach to forming an investment portfolio? Find the advantages and disadvantages of each approach.
5. An investor's portfolio consists of: US Treasury bonds - 500 units with a market value of \$ 1,000 per unit with a yield of 4%; shares of Johnson & Johnson

- 800 units with a market value of \$ 750 per unit with a yield of 3%; shares of American Express Company - 250 units with a market value of \$340 per unit with a yield of 6%; a bank deposit of \$850,000 with a yield of 2%. Calculate the average return on the investment portfolio.

## RECOMMENDED LITERATURE

### Compulsory reading

1. Anatolii Zadoia (2015). International Investment Activity: Course Book
2. International investment activity: study guide (2020) / edited by Dr. Sc. L.M. Taraniuk, Dr. Sc. I.I. D'yakonova, Ph.D. K.V. Taraniuk. Sumy: Sumy State University, 2020. 85 p. Available at: [https://essuir.sumdu.edu.ua/bitstream-download/123456789/78683/1/Taraniuk\\_investment\\_activity.pdf;jsessionid=B8D7D9828A09B249EDC9F11076098BF2](https://essuir.sumdu.edu.ua/bitstream-download/123456789/78683/1/Taraniuk_investment_activity.pdf;jsessionid=B8D7D9828A09B249EDC9F11076098BF2)
3. Who Invests in Ukraine and How? - Available at: <http://razumkov.org.ua/en/articles/who-invests-in-ukraine-and-how>
4. Zadoia A., Kholod S., Zadoia O. (2022) Models of the international investment position in the Visegrad countries and Ukraine: a comparative analysis. Naukovyi Visnyk Natsionalnoho Hirnychoho Universytetu, № 3, pp.215-220. <https://doi.org/10.33271/nvngu/2022-3/173>
5. Xinxin Wang, Zeshui Xua, Yong Qina and Marinko Skare (2022) Foreign direct investment and economic growth: a dynamic study of measurement approaches and results. Economic Research Ekonomika Istraživanja, Volume 35, Issue 1, Pages 1011-1034, <https://doi.org/10.1080/1331677X.2021.1952090>

### Recommended reading

1. Kersten Stamm, Dana Vorisek (2023). The Global Investment Slowdown: Challenges and Policies. World Bank Group, 81 p. Available at: <https://documents1.worldbank.org/curated/en/099351003152335049/pdf/IDU0726e2460074a604ccb0be1e003a8396efcce.pdf>
2. Global Equity Markets The near-term and mid-term outlook amid inflation, rising rates, global conflict, and pandemic recovery. Institutional Investor & EquitiesFirst. 2023.
3. Global foreign direct investment flows over the last 30 years. By region and economy, 1990–2021. Available at: <https://unctad.org/data-visualization/globalforeigndirect-investment-flows-over-last-30-years>
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