

University of Washington Business School

International Financial Management (FIN 428) Spring 2007

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Office Hours: M 12:30 – 1:30 and by appointment
Day and Time: MW 10:30 – 12:20
Class Room: BLM 302
Course Web Site: Blackboard

Teaching Assistant: Celine Sun, sun05@u.washington.edu

Course Description

Companies engaging in cross-border business as well as investors allocating capital globally face important international financial decisions. This course aims at providing the necessary understanding and tools to evaluate, finance, and manage international business and investment activities. While emphasis will be on the practical application of techniques and concepts, we will also study the underlying economic and institutional forces.

In the context of international finance, understanding foreign exchange rates is, of course, crucial. The course therefore starts with an overview over the macroeconomic forces that determine exchange rates. We then examine the challenges unexpected changes in foreign exchange rates pose for firms. We discuss whether and how these firms (should) manage their exposure to currency fluctuations.

Next, we broaden our focus and study how to discount non-USD cash flows, accounting for international differences in inflation, taxation, and risk. We then turn to financing decisions and show how firms can use global capital markets to lower their financing costs.

In the final part of the course, we study cross-border investment strategies available to financial investors.

Course Objective

The course is designed to prepare you for real-life situations in which you often have to structure a problem and collect information before you can actually address a given question. If you look for a course where you learn some formulas and apply them to very similar problems, this is NOT the right course for you.

Given that the course addresses a wide range of topics, students who have only taken the introductory finance course, FIN 350, sometimes find this course quite challenging. If your finance background is still limited, be prepared to work quite a bit and consider forming a group with other students to share some of the work (see below for details).

Course Format

The course is structured around several business cases that we will discuss in class. In addition, I will summarize the main theoretical concepts and the related empirical findings in a few lectures.

Course Material

- Course Pack (CP) available at the University Bookstore (REQUIRED)
The course pack contains all cases we will discuss as well as several required readings.
- Blackboard (BB) (REQUIRED)
Whenever (legally) possible, I post required readings on Blackboard. I will also post my lecture notes as well as case relevant material on Blackboard.
- Alan Shapiro, *Multinational Financial Management*, 8. Edition, available at the University Bookstore (STRONGLY RECOMMENDED)
While I think reading the assigned chapters in the textbook is essential to really understanding the material, some students have found the textbook less useful.

Additional Course Material

I will post additional readings on Blackboard. These readings are strictly OPTIONAL and intended for those student who wish to pursue a given topic in more detail.

There are also several books that cover some of the topics we discuss in this course in more detail. In particular:

- International Macroeconomics
Krugman, Paul and Maurice Obstfeld, *International Economics: Theory and Policy*
- Corporate Valuation
Koller, Tim, Marc Goedhart, and David Wessels, *Valuation: Measuring and Managing the Value of Companies*
- International Asset Pricing
Levich, Richard, *International Financial Markets: Prices and Policies*

Requirements

We will discuss a number of cases in this course. You are expected to prepare the cases before class and to participate actively in class discussions. To help you with the case preparation, I will post a number of questions for each case on Blackboard. These questions are generally intended to help you get started on your analysis, but should not constrain you in your preparation of the case. At the beginning of class, you should be in a position to describe the set-up of the case, the main questions at hand, the possible solutions, as well as the reasons why you favor one solution over another. Clearly, at times you will not have reached a definite answer on what the “right” solution is; otherwise there would be little for you to learn from the class discussion. As long as you can express what aspects you would need to understand better or what additional information you would need to obtain, this is absolutely acceptable. On the other hand, if you are not sufficiently prepared, you should alert me before class, as I will call on individual students during case discussions.

For Cases II and V, I will ask you to address some of the case questions in writing. For Cases IV and VI, you will need to perform a complete case analysis that will require extensive calculations in Excel. **I strongly recommend that you work in groups of up to three students.** All case write-ups are limited to three pages of text (typed, double-spaced, minimum 11 point font) and four pages of attachments. Case assignments are due *at the*

beginning of the class in which the case will be discussed (see the course outline below for details). If you cannot make it to class, you must email me your case solution *before* class. I will not accept any late case assignments. Please hand in a print-out of *all* parts of your case solution. Also make sure that the names (in alphabetical order) of all group members are on the first page of your case solution. If your solution relies on extensive calculations in Excel, you must also email me the Excel file containing your calculations. Please make sure that you name the file in this way “Case1_NameA_NameB_NameC.xls”. Finally, as we will discuss the case in class, remember to keep a copy of your case solution.

There will also be two quizzes. I use the quizzes to test your understanding of basic concepts covered up to that point, your preparation of a case discussed that particular day, as well as your understanding of the case discussed the previous class. Quizzes cannot be rescheduled or made up. You must be present in class to take each quiz. I reserve the right to give unannounced quizzes or to make any of the quizzes “take-home”.

The midterm exam will be an in class exam held during a regular class meeting. The exam will be closed book, but you are allowed to bring a single handwritten “cheat-sheet” (letter sized, two sided). If you cannot take the midterm exam on the scheduled date, please make sure you discuss this matter with me *in advance*.

To help you study the material for the midterm exam, I will provide you with a few homework assignments. While you are required to hand the assignments in, I will not grade them based upon whether they are correct (we will do this in the exam), but based upon whether or not you have demonstrated the necessary effort in addressing the assigned questions. The homework assignments will count towards your participation grade.

The final exam is scheduled for Monday, June 4, 2007, 8:30-10:20 am in BLM 302. The exam will be open book and open notes. All material covered during the course is relevant for the final exam.

Grading

Grades will be based on the following requirements:

Class Participation, including Homework Assignments:	15%
Cases (II and V each 5%, IV and VI each 7.5%):	25%
Two Quizzes (each 5%):	10%
Midterm Exam:	20%
Final Exam:	30%

The target median grade for this course is in the range of 3.3 to 3.4.

Code of Academic Integrity

You cannot discuss case solutions or exam questions with students who are currently not enrolled in this course. In fairness to all students, I will not hesitate to report a violation of the code of academic integrity to the Vice President for Student Affairs.

Feedback

It is important to me to know about any concerns or questions you might have. I also appreciate any comments on the course, in particular about lectures or cases that you found particularly helpful or not helpful at all. Please feel free to stop by my office or send me an email if you would like to talk to me.

Course Outline

The course outline is subject to change depending on actual progress. Please note that the date for the midterm exam will not change. Clearly, the exam will only cover the material actually covered in class by the time of the exam. As necessary, I will post updated course outlines on Blackboard.

Class 1
March 26 (M) **Course Overview**
Read: Shapiro, Chapter 1

THE MACRO-ECONOMIC ENVIRONMENT

Class 2
March 28 (W) **Introduction to Foreign Exchange Rates**
Read: Shapiro, Chapter 7.1 to 7.2

Class 3
April 2 (M) **International Transactions and the Balance of Payments**
Read: Shapiro, Chapter 5
 BB: Buffet, Fortune, 2003

Class 4
April 4 (W) **Capital Flows and Exchange Rate Regimes**
Read: Shapiro, Chapters 2.1 – 2.2 and 3.1 and 3.4
Prepare: Case I: The 1994-95 Mexican Peso Crisis
Hand in: Assignment 1

Class 5
April 9 (M) **Foreign Exchange Markets and Instruments**
Read: Shapiro, Chapters 7.3 and 8.1 – 8.3

Class 6
April 11 (W) **International Parity Conditions**
Read: Shapiro, Chapter 4
Hand in: Assignment 2

EXCHANGE RATE EXPOSURE AND RISK MANAGEMENT

Class 7
April 16 (M) **Transaction Exposure**
Prepare: Case II: Hedging Currency Risk at AIFS
Hand in: Case Questions

Class 8
April 18 (W) **Translational and Operating Exposures**
Read: Shapiro, Chapter 10.1 – 10.3 and 10.6

Class 9
April 23 (M) **Competitive Exposure**
Read: Shapiro, Chapter 11
Prepare: Case III: Foreign Exchange Hedging Strategies at GM:
 Competitive Exposure
Hand in: Assignment 3

Class 10
April 25 (W) **To Hedge or not to Hedge**
Read: BB: Smithson and Simkins, Does Risk Management Add Value? A Survey of the Evidence
 BB: Froot, Scharfstein, and Stein, Risk Management

Class 11
April 30 (M) **Midterm Exam**

CROSS-BORDER VALUATION

Class 12
May 2 (W) **Valuation Techniques**
Read: BB: Note on Valuation (Review)
 BB: Using APV: A Better Tool for Valuing Operations

Class 13
May 7 (M) **Cross-border Valuation**
Read: Shapiro, Chapter 17.1 - 17.2 and 14.1 – 14.3
 CP: Note on International Tax Regimes

Class 14
May 9 (W) **Cross-border Valuation (continued)**
Read: Shapiro, Chapter 17.1 - 17.2 and 14.1 – 14.3
 CP: Note on International Tax Regimes
Hand in: Assignment 4

Class 15
May 14 (M) **Cross-border Valuation (continued)**
Prepare: Case IV: Prince S. A.
Hand in: Case Analysis

CROSS-BORDER FINANCING

Class 16
May 16 (W) **International Markets for Debt**
Read: Shapiro, Chapters 12.1, 12.2. and 13.1 to 13.3

Class 17
May 21 (M) **Cross-Listings and ADRs**
Read: CP: Cross-Border Listings and Depositary Receipts
Prepare: Case V: Nestle and Alcon: The Value of a Listing
Hand in: Case Questions

INTERNATIONAL PORTFOLIO INVESTMENT

Class 18
May 23 (W) **Global Investing**
Read: Shapiro, Chapter 15

Class 19
May 28 (M) **Memorial Day – No Class**

Class 20
May 30 (W) **Risky Arbitrage**
Prepare: Case VI: Global Equity Markets: The Case of Shell and Royal Dutch
Hand in: Case Analysis