

International Financial Management (FIN 528)
Spring 2009

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Office Hours: M 12:30 – 1:30 and by appointment
Day and Time: TTh 2:30-4:20
Class Room: BLM 304
Course Web Site: Blackboard

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Course Description

Companies engaging in cross-border business as well as investors allocating capital globally face important financial questions beyond those found in a purely domestic (single country) setting. 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 underlying economic and institutional forces.

In the context of international finance, understanding foreign exchange rates is crucial. Therefore, this course begins with an overview of the macroeconomic forces that determine exchange rates. We then examine the challenges for firms created by unexpected changes in foreign exchange rates. We also discuss how, if at all, 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.

Finally, we examine the opportunities of global investing from the perspective of an institutional investor.

Course Objective

The course is designed to prepare you for *real-life situations* where you have to structure a problem and collect information before you can actually address a given question.

The course addresses a wide range of topics in finance. Students who have taken only the introductory finance course (FIN 502) sometimes find this course quite challenging. If your finance background is still limited, be prepared to work hard. I strongly encourage all students to work in groups (see below for details).

Course Format

After introducing the formal framework of international finance, we will discuss several business cases in class.

Course Material

- Required: Two Course Packs available at the University Bookstore
One course pack (CP) contains the required readings. A second course pack contains the business cases we will discuss in this course.
- Required Access: Blackboard (BB)
I will post additional reading material on Blackboard. I will also post my lecture notes, assignments, tasks (see below) and case-relevant material on Blackboard.

Prerequisites

You should be familiar with the content typically covered in the following courses:

- FIN 502, in particular discounted cash flow valuation
- QMETH 500, in particular the concepts of mean, variance, covariance, correlation, and regression
- BECON 501

You should also be comfortable using Excel to manipulate data, to calculate means, variances, covariances, and correlations as well as to run a simple OLS regression using the Data Analysis Toolpak. Please make sure that Excel's Data Analysis Toolpak is installed on your computer. If it is not, please install it right away (go to Tools -> Add-Ins -> ToolPak).

Requirements

I expect that you come prepared to each class. Your preparation should include reading the assigned material as well as preparing the task / case that will be discussed during a given session.

I will assign six tasks that you should complete before class. Tasks are designed to expose you to details of a given topic or a case. They require material that you are already familiar with and *material that is new*. Tasks are hence more like real-world problems that you could be given on your first job after graduation. I recommend that you work on these tasks in groups (of up to three students – no exceptions). Four of the six tasks will be graded. These tasks are due *at the beginning of the class* (see the course outline below for details). If you cannot make it to class, you must email me your task solution before class. *I will not accept any late tasks*. Please hand in *one print-out*

per group. Also make sure the names of all group members are on the first page of your solution.

Finally, please remember that even though form without substance is meaningless, form still matters. You should prepare all graded material for this course in a form that meets professional standards: This includes dating any material, numbering the pages, labeling graphs and tables, and, most importantly, expressing yourself in a concise manner.

Case discussions are an important part of this course. Case discussions require your preparation as well as participation. To help you with the preparation, I will post a number of questions for each case on Blackboard. 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, and 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.

To make the discussion of concepts in class specific, you will have to compile a three-to-five page country report for a country of your choice. This country report should include country-specific information on the country’s exchange rate regime, statistics of past exchange rate movements, the country’s growth outlook, equity market valuations, political risk factors, and a description of the local capital markets. The objective of the report is to characterize the financial risks and rewards from the perspective of a corporate (or institutional) US investor. You should again work in groups of up to three people. To make sure that you can find enough data for a given country you should check standard data sources (such as WDI and GFD). I plan to use the last class for brief (app. 5 minute) presentations of your main findings.

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 and final exam, I will provide you with two (optionally three) homework assignments. You can again work in groups of up to three students. If you do, please turn in one copy per group.

The final exam is optional. If you take the final exam, your score in the final exam will be averaged with your score in the midterm exam. The optional final exam is scheduled for Tuesday, June 9, 2009, 4:30-6:20 pm, in BLM 304. The final exam covers all material discussed in the course. *It is open book*. If you cannot take the final exam on the scheduled date, please make sure you discuss this matter with me in advance.

Grading

Grades will be based on the following requirements:

Class Participation:	20.0%
Tasks (four):	20.0%
Country report:	10.0%
Homework Assignments (two, optionally three):	10.0%
Exams (Midterm or Midterm and Final):	40.0%

The target median grade for this course is in the range of 3.4 to 3.6.

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 find 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 the dates for the midterm and final exam will not change. Clearly, the exams 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	Date	Day	Topic
1	31-Mar	T	Course Overview Read Syllabus
EXCHANG RATES AND THE MACRO ECONOMY			
2	2-Apr	Th	Demand and Supply for Foreign Exchange (FX) Read CP: Shapiro, Chapter 5 CP: Buffett, Fortune, 2003 BB: Latest BEA release on international transactions
3	7-Apr	T	Foreign Exchange Rates: Markets and Statistics Review Concepts from QMETH 500 CP: Berk, DeMarzo, and Harford, Chapter 10.2 Read CP: Berk, DeMarzo, and Harford, Chapter 22.0 - 22.2 (page 709) Prepare Task 1
4	9-Apr	Th	FX Derivatives Read CP: Berk, DeMarzo, and Harford, Chapter 20.1 - 20.4 and 22.2
5	14-Apr	T	International Parity Conditions Read CP: Eun and Resnick, Chapter 6 (134 - 151) CP: ECM, Carry on speculating Hand in Assignment 1
6	16-Apr	Th	Testing Parity Conditions and FX Forecasting Read CP: Eun and Resnick, Chapter 6 (151 - 158) CP: ECM, The domino effect Prepare Task 2
EXCHANG RATE EXPOSURE AND RISK MANAGEMENT			
7	21-Apr	T	Transaction Exposure Prepare Case I: Hedging Currency Risk at AIFS
8	23-Apr	Th	Managing Currency Exposure Read CP: Shapiro, Chapter 11.1 - 11.4 Hand in Assignment 2
9	28-Apr	T	Competitive Exposure Read CP: Shapiro, Chapter 11.5 - 11.7 Prepare Case II: Foreign Exchange Hedging Strategies at GM: Competitive Exposure
10	30-Apr	Th	To Hedge or Not to Hedge Read CP: McDonald, Chapter 4.3 CP: Berk, DeMarzo, and Harford, Chapter 10.3 - 10.5 CP: JACF, Merck Hand in Task 3
11	5-May	T	Guest Speaker: Tom Goodwin Director, Portfolio Strategies Russell Investments
12	7-May	Th	Midterm Exam

Class	Date	Day	Topic
CROSS-BORDER VALUATION			
13	12-May	T	Generating Value Globally Review Free Cash Flows, Capital Budgeting, Systematic Risk, Cost of Capital (FIN 502) Read CP: Berk, DeMarzo, and Harford, Chapter 22.3 - 22.5 CP: McKinsey, pages 605 - 620 Prepare Case III: Cross-Border Valuation: Prince S.A.
14	14-May	Th	Cross-Border Valuation Read CP: Berk, DeMarzo, and Harford, Chapter 22.6 Hand in Task 4
15	19-May	T	Cost of Capital for Foreign Investments Read CP: McKinsey, pages 634 - 652
16	21-May	Th	Investing in Emerging Markets Read CP: ECM, Skimming the froth Prepare Case IV: Valuation in Emerging Markets: Dow Chemical's Bid for PBB in Argentina Hand in Task 5
CROSS-BORDER FINANCING			
17	26-May	T	Cross-Listings and ADRs Read CP: Berk, DeMarzo, and Harford, Chapter 9.5 Prepare Case V: Nestlé and Alcon – The Value of a Listing
18	28-May	Th	Cross-Border Financing Read CP: Fabozzi, Chapter 18 Prepare Case VI: Carrefour S.A. Hand in Task 6
INVESTING GLOBALLY			
19	2-Jun	T	Investing Globally Read CP: Shapiro: Chapter 15 CP: ECM, Dizzy in Boomtown
20	4-Jun	Th	Country Report / Guest Speaker Hand in Country Report Hand in Optional: Assignment 3