

University of Washington Business School

International Financial Management (FIN 528) Winter 2007

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Office Hours: Th 12:30 – 1:20 and by appointment
Day and Time: TTh 1:30 – 3:20
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 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 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.

Required Course Material

- Alan Shapiro, *Multinational Financial Management*, 8. Edition, available at the University Bookstore
Shapiro is a solid text on many of the topics we discuss in this course. For those topics that are not covered by Shapiro, I have included required readings in the course pack (CP) or posted them on Blackboard (BB).
- Course Pack (CP) available at the University Bookstore
The course pack contains all cases we will discuss as well as several required readings.
- Blackboard (BB)
Whenever (legally) possible, I post required readings on Blackboard. I will also post my lecture notes as well as case relevant material on Blackboard.

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, IV, VII, and VIII / IX (you can choose one of the two) I will ask you to address some of the case questions in writing. For Cases V and XI, you will need to perform a complete case analysis that will require extensive calculations in Excel. You can do so by yourself or 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.

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*. There will be *no final exam* for this class.

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. I encourage you discuss the assignments among each other, for example on the “Assignment-Forum” in Blackboard.

Grading

Grades will be based on the following requirements:

Class Participation:	25%
Cases (II, IV, VII, and VIII / IX each 5%, V and XI each 12.5%)	45%
Midterm Exam:	25%
Homework Assignments:	5%

The target distribution for this course sets the median grade between 3.4 and 3.6.

Honor Code

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 honor code to the Honor Council and / or 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 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 that the date for the midterm exam will not change. Clearly, the exam will only cover the material actually covered by the time of the exam. As necessary, I will post updated course outlines on Blackboard.

Class 1
January 4 (Th) **Course Overview and Introduction to Foreign Exchange Rates**
Read: Shapiro, Chapters 1 and 7
Review: Options and Futures (for example Shapiro, Chapter 8)

THE MACROECONOMIC ENVIRONMENT

Class 2
January 9 (T) **International Transactions and the Balance of Payments**
Read: Shapiro, Chapter 5
BB: Buffet, Fortune, 2003

Class 3
January 11 (Th) **Capital Flows and Exchange Rate Regimes**
Read: Shapiro, Chapters 2.1 to 2.2 and 3 (in particular 3.1 and 3.4)
Prepare: Case I: The 1994-95 Mexican Peso Crisis
Hand in: Assignment 1

Class 4
January 16 (T) **International Parity Conditions**
Read: Shapiro, Chapter 4

EXCHANGE RATE EXPOSURE AND RISK MANAGEMENT

Class 5
January 18 (Th) **Transaction Exposure**
Read: Shapiro, Chapters 8 and 10.1, 10.3 and 10.6
Prepare: Case II: Hedging Currency Risk at AIFS
Hand in: Case Questions

Class 6
January 23 (T) **Translational and Operating Exposures**
Read: Shapiro, Chapters 10 and 11
Prepare: Case III: Foreign Exchange Hedging Strategies at GM:
Transactional and Translational Exposures
Hand in: Assignment 2

Class 7
January 25 (Th) **Competitive Exposure**
Read: Shapiro, Chapter 11
Prepare: Case IV: Foreign Exchange Hedging Strategies at GM:
Competitive
Exposure
Hand in: Case Questions

Class 8
January 30 (T) **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
Hand in: Assignment 3

Class 9
February 1 (Th) **Midterm Exam**

CROSS-BORDER VALUATION

Class 10
February 6 (T) **Valuation Techniques**
Read: Shapiro, Chapter 17.1
CP: Note on Free Cash Flow Valuation Models
BB: Using APV: A Better Tool for Valuing Operations
Review: DCF Valuation and WACC

Class 11
February 8 (Th) **Cross-border Valuation**
Read: Shapiro, Chapters 17.2 and 14.6
CP: Note on International Tax Regimes
Prepare: Case V: Prince S.A.

Class 12
February 13 (T) **Cross-border Valuation (continued)**
Prepare: Case V: Prince S.A. (continued)
Hand in: Case Analysis

Class 13
February 15 (Th) **The Cost of Capital for Foreign Investments**
Read: Shapiro, Chapter 14 (in particular 14.1 to 14.4)
Prepare: Case VI: Globalizing the Cost of Capital and Capital Budgeting at AES

Class 14
February 20 (T) **Investing in Emerging Markets**
Read: Shapiro, Chapter 6 (in particular 6.1. and 6.2)
Prepare: Case VII: Dow Chemical's Bid for the Privatization of PBB in Argentina
Hand in: Case Questions

CROSS-BORDER FINANCING

Class 15
February 22 (Th) **International Markets for Debt and Equity**
Read: Shapiro, Chapters 12.1, 12.2. and 13.1 to 13.3

Class 16
February 27 (T) **Currency and Interest Rate Swaps**
Read: Shapiro, Chapter 9.1
Prepare: Case VIII: The Walt Disney Company's Yen Financing
Hand in: Case Questions [choose between this case and the next case]

Class 17
March 1 (Th) **Cross-Listings and ADRs**
Read: CP: Cross-Border Listings and Depositary Receipts
Prepare: Case IX: Nestle and Alcon: The Value of a Listing
Hand in: Case Questions [choose between this case and the previous case]

Class 18
March 6 (T) **Tax Arbitrage**
Read: CP: The Strategy and Sources of Motion Picture Finance
Prepare: Case X: Tax-Motivated Film Financing at Rexford Studios

INTERNATIONAL PORTFOLIO INVESTMENT

Class 19
March 8 (Th)

Risky Arbitrage

Read: Shapiro, Chapter 15.1
BB: Froot and Dabora, How are stock prices affected by the location of trade?
Prepare: Case XI: Global Equity Markets: The Case of Shell and Royal Dutch
Hand in: Case Analysis