

## MGP 266 International Finance

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Text: Eun & Resnick, International Financial Management, 6<sup>th</sup> edition

Good sources for current news articles: Wall Street Journal, Financial Times, or The Economist

### Course Description:

This course explores issues that multinational firms face and how they make international financial decisions. Key topics will be understanding and managing foreign exchange exposure, foreign direct investment decisions, and multinational capital budgeting and cash management. We will also discuss trends in international banking and alternatives for international financing. We will introduce fundamental international finance concepts: the determination of exchange rates, corporate governance, and tax impacts. We will review some of the international mechanisms available for managing risk such as futures, options, and swaps. The class will build upon key concepts in text book by discussing mini-cases and drawing from recent examples across the globe.

### Course Outline:

#### Class 1& 2- Overview of international financial management

- Introduction to globalization – Chapter 1 ; mini-case: Nike
- Corp governance and the impact on financial statements and decision-making – Chapter 4; mini-case Parmalat
- Thoughts to share: Saudi Arabian joint venture agreement
- International Monetary Systems – Chapter 2; mini-case: Implications of UK joining Euro club

#### Class 3 & 4 – Understanding foreign exchange fluctuations and risk mitigation tools

- Foreign Exchange Markets – Chapter 5 : mini- case: Shrewsbury Herbal Products hedging decision
- Thoughts to share: Signing 20-year agreement in Thailand during Asia crisis
- Futures and options in foreign exchange – Chapter 7; mini case: the option speculator
- Interest rates and currency swaps – Chapter 14
- Thoughts to share: home risk bias behavior impacts portfolio diversification – pick favorite international security (equities, bonds, real estate, commodities, etc) and discuss why

#### Class 5&6 – Risk Mitigation tools and Midterm exam

- Understanding different foreign exchange risk (Transaction exposure, Economic Exposure, and Translation exposure) Chapter 8, 9; mini cases: Airbus and Albion

- Thoughts to share: To hedge or not to hedge the Chevron decision to invest \$40 billion in Australian dollars in massive Australian project in 2009
- Mid-term exam

Class 7&8 – International Capital Budgeting and discussion of foreign direct investment decisions and global cash management

- International capital structure and cost of capital – Chapter 17
- International capital budgeting – Chapter 18 ; mini case: Dorechester
- Mock Capital Budget Summit (a simulation of management meeting for capital prioritization process)
- Mini case: Chapter 16- Enron in India
- Thoughts to share: Comparing acquisition of a privately-held Argentine company versus a US-publicly-traded company with overseas assets
- Multinational cash management – Chapter 19; mini case: Easter Trading Company
- Thoughts to share: Decision to handle excess cash in Honduras subsidiary (dividend, reinvest, lend, or keep cash surplus)

Class 9 &10 – Alternatives for international financing; Importance of tax environment; Final presentations

- International Debt markets, Chapter 11, 12; mini-case: Sara Lee financing
- Thoughts to share: Gazprom, Russian gas company, searches for international financing options of large gas field in Arctic circle
- International tax environment and transfer pricing – Chapter 21; mini case: Signa Corp location decision
- Thoughts to share: Exxon crude oil trading strategy based on tax differentials
- Presentation of Final projects

Course Procedure:

Each class will refer to the chapters in the text as background. We will highlight the key concepts from each chapter and use the mini case to apply the concepts. Please come prepared to discuss the mini-cases.

When possible, we will refer to current news and events that relate to course topics. I'll reference some relevant examples I've run across (noted under "Thoughts to share".) Students are encouraged to submit recent news articles for class discussion. Please be sure to send them to me prior to class so we can determine if/how it can be incorporated into class agenda.

Grading will be determined as follows:

- Mid-term exam: 35%
- Final paper : 50%
- In –class participation: 15%

#### Mid-term Exam

The exam will be taken in class and will test knowledge of key principles of international finance. Exams will be based on individual performance. If you can not attend the class on exam date, please make arrangements with me in advance to schedule exam at an alternative time.

#### Final Paper

Choose a US firm and a country where the firm is not currently present. Develop an in-house proposal suggesting whether and how your firm should enter the market. Be sure to include:

- Financial analysis of investment decision (NPV of cash flows)
- Foreign exchange risk analysis and risk mitigation recommendation
- Possible financing alternatives
- Tax optimization views

Final paper will be prepared in groups of 2 to 4 students. It is expected to be typed and in format appropriate for a corporate communication. Executive summary should be no longer than 5 pages, with unlimited exhibits and attachments. Team members will rate effort and contribution of each team member. You can select a topic and prepare a rough outline to check with me in advance for feedback. We will attempt to have as many teams as possible present their final project at the last session. Presentations will be 15 to 20 minutes per team member with each member presenting part of the project.

For questions, please contact me at [Suzy.Taherian@yahoo.com](mailto:Suzy.Taherian@yahoo.com).