

International Corporate Finance, 2015

Course Summary

The course covers the following six major topics: (1) the global financial and economic environment; (2) foreign exchange theory, markets and hedging instruments; (3) managing foreign exchange risk at the corporate level; (4) capital structure across countries and financing the global firm; (5) international valuation, investments, capital budgeting and M&A; and (6) managing multinational operations, including taxes. In addition to mini cases, students will make presentations on special topics highlighting the above areas.

Course Content

1. The Global Financial Environment
 - a. Current multinational challenges and the global economy (EITCh1)
 - i. Ricardian comparative advantage
 - ii. Paul Krugman's theory of international trade
 - iii. Why multinationals exist and Coase's theorem
 - iv. BRICs and the *ancien regime*
 - v. Case: Nine dragons paper (watch for leverage)
 - b. Varying types of corporate ownership, goals, and governance around the globe (EITCh2)
 - i. The Anglo-Saxon view and English Law
 - ii. The continental view and the Napoleonic code
 - iii. Case: Luxury wars: LVMH vs. Hermes
 - c. The international monetary system (EITCh3)
 - i. Fixed vs. flexible exchange rates
 - ii. Understanding central banks
 - iii. Sister institutions: the IMF and the World Bank
 - iv. And China emerges
 - v. Requirements to become a reserve currency
 - vi. Case: The Yuan goes global
 - d. The balance of payments (EITCh4)
 - i. Current and capital accounts
 - ii. Two sides of the same coin: government budget and current account deficits
 - iii. Breaking the rules: China's twin surpluses
 - iv. Case: Global remittances
 - e. The continuing global financial crisis (EITCh5)
 - i. The great contraction of 2007-2009
 - ii. The Euro crisis and the garlic belt
 - iii. The perpetual country of the future: Brazil
 - iv. Case: Letting go of Lehman Brothers

- v. Will Greece turn into a Lehman moment
- 2. Foreign Exchange Theory and Markets
 - a. The foreign exchange market (EITCh6)
 - i. The Saga of the Venezuelan Bolivar Fuerte
 - b. International parity conditions (EITCh7)
 - i. Purchasing power parity
 - ii. Interest rate parity and the forward rate
 - iii. Covered versus uncovered interest rate parity and the carry trade
 - iv. Case: Emerging market carry trades
 - c. Foreign currency derivatives and swaps (EITCh8)
 - i. Forwards versus futures
 - ii. Option pricing and valuation
 - iii. Interest rate derivatives
 - iv. Foreign currency swaps
 - v. Credit default swaps
 - vi. Case: McDonalds's British pound exposure
- 3. Foreign Exchange Exposure
 - a. Foreign exchange rate determination and forecasting (EITCh9)
 - i. The trade balance and balance of payments approach
 - ii. The monetary approach
 - iii. The asset market approach
 - iv. Rational expectations and efficient markets
 - v. Forecasting in practice
 - vi. The feasibility of foreign currency intervention
 - vii. Case: The Japanese yen intervention of 2010
 - b. Transaction exposure (EITCh10)
 - i. Case: Banbury Impex (India-Turkey)
 - c. Translation exposure (EITCh11)
 - i. Case: LaJolla engineering services
 - d. Operating/Economic exposure (EITCh12)
 - i. Case: Toyota's European operating exposure
- 4. Financing the Global Firm
 - a. The global cost and availability of capital (EITCh13)
 - i. Global vs. local costs of capital
 - ii. The role of international portfolio investors
 - iii. Case: Novo industry (Denmark)
 - b. Raising equity and debt globally (EITCh14)
 - i. The Euro, Yankee, and Samurai markets (Telefonica de Chile comes to the Yankee market)
 - ii. American and Global depository receipts
 - iii. Case: Korres natural products and the Greek crisis

- c. Multinational tax management (EITCh15)
 - i. Tax principles
 - ii. Trapped overseas cash: pharmas and techs
 - iii. Case: General Electric, April 2015
- 5. Foreign Investment Decisions
 - a. International portfolio theory and diversification (EITCh16)
 - i. Expanding the efficient frontier
 - ii. Sharpe and Treynor ratios
 - iii. Case: Portfolio theory, black swans, and avoiding being the turkey
 - b. Foreign direct investment and political risk (EITCh17)
 - i. Measuring political risk with CDS spreads
 - ii. Varying industry sensitivities to political risk
 - iii. Case: Corporate competition from the emerging markets
 - c. Multinational capital budgeting and cross-border acquisitions ((EITCh18)
 - i. Southwestern Bell Corp and Telmex
 - ii. Repsol and YPF
 - iii. Telefonica de Espana and Telefonica del Peru
 - iv. General Motors and Daewo
 - v. GM Hughes and DirecTV Latin America
 - vi. Cemex of Mexico
 - vii. Alfa of Mexico
 - viii. Case: Yanzhou (China) bids for Felix Resources (Australia)
- 6. Managing the Global Firm
 - a. Working capital management (EITCh19)
 - i. Leading and lagging
 - ii. The cash conversion cycle
 - iii. Case: Honeywell and Pakistan International Airways
 - b. International trade finance (EITCh20)
 - i. Case: Croswell International and Brazil
- 7. Special Projects
 - a. Sovereign wealth funds
 - b. Backstop fund Argentina
 - c. Global privatizations: France Telecom, British Telecom, Telefonica de Espana, Pemex
 - d. Managing forex and interest rate risk for US private equity shops investing in South Africa

Course Philosophy

The course will consist of professor's lectures, student case and project presentations, homeworks, and active class participation. I will encourage lively discussions of current events.

The objective of the course is to help students synthesize the theory, the empirical evidence, market color and various other constraints in making pragmatic corporate finance management recommendations – that is, the pragmatic application of theory. I encourage class participation and cross learning.

Current Events

Follow the current financial and economic events in the media. Get engaged with what is going on in the political, economic, and financial world around you. Try to read the Wall Street Journal, the New York Times, the Financial Times, Business Week, the Economist, Barron's, and other financial and economic publications. Try to watch Bloomberg TV, or CNBC. Try to listen to Bloomberg radio. Bring your observations and thoughts to class, discuss them with your classmates and your professor.

Grading

Will be based on Midterm (25%), Final (25%), Homeworks (25%), Project (15%), and class participation (10%). For absences exceeding 15% of class time, I maintain the right to fail you in the course. The project grade will be based on originality, literature survey, use of analytical methods, and presentation quality.

Textbooks

The main textbook for the course is: D.K. Eiteman, A.I. Stonehill, and M.H. Moffett (EIT), *Multinational Business Finance*, most recent edition, Prentice Hall, 2013. A supplementary textbook is Krugman, Paul R., M. Obstfeld, and M.J. Melitz, *International Economics, Theory and Policy*, most recent Edition, Pearson, (*you do not have to buy this textbook*). However, the Myeconlab application associated with the Krugman text *is mandatory*.

Blackboard (BB)

All course announcements and related materials will be posted on the class website on *Blackboard*: <http://blackboard.pace.edu>. Students are required to periodically check the class announcements and course documents on *the Blackboard*. Also, all housekeeping information regarding course management, including textbook ISBNs, myeconlab course id, class meeting places and times, exam dates, etc., will be posted on the BB.

General Responsibilities

It is your responsibility to read, understand and abide by all of the course information and policies listed herein. Failure to do so may result in your failing this course or being withdrawn from the course by your professor.

You are responsible for knowledge of any administrative announcements (test information, schedule changes, etc.) that are made at any time during scheduled class periods and on the BB.