



## Wharton MBA for Executives FNCE 731 International Corporate Finance

Fall 2009

Professor Gordon Bodnar

*SAIS, Johns Hopkins University and Wharton*

### Course Description

This course will cover issues related to both international financial markets and the financial operations of a firm within the international environment. The first part of the course will examine issues related to the international markets, including international commercial policy, international investment, foreign exchange markets, the euromarkets, and currency derivative markets. The second part of the course will consider financial issues associated with the operation of a firm in the international environment. Specifically, this part of the course will focus on the identification, measurement, and management of the impact of exchange rates on the firm; issues related to the taxation of international income; the implications of political risk on project evaluation and financial structure, firms' cost of capital for international projects; financing decisions in a global market; and methods for evaluating the performance of foreign operations. While the course discusses theoretical basis on the various issues, it relies on both empirical evidence and discussion of firms' real world activities. The course style is mostly lectures with some class discussions. It evaluates students through several quantitative problem sets, case studies, and a midterm and end of course exam.

### Course Grading

To receive credit for the course, each student will be responsible for writing a midterm exam and a short second exam. The midterm exam will be **FRIDAY NOVEMBER 13, 2009 from 1:30pm-4:30pm**. The second exam will be **SATURDAY DECEMBER 19, 2009 1:00pm – 4:00pm**. Students will also be responsible for handing in several problem sets and case write-ups as part of a study group. The final grade will be determined by the following weights:

First Exam	30%
Second Exam	30%
3 Problem Sets / 2 Cases	30%
Class/Group Participation	10%

The participation portion of the grade is based upon general class participation and group participation as evaluated by your group members. To promote classroom participation, discussion is evaluated only on involvement and quality rather than on the particular position taken. Please note that 40% of the grade is determined by group activities so keep this in mind when forming study groups.

## Course Materials

A bulk pack will be provided for the non-textbook readings of the course. Other handouts, such as problem sets, cases, case setups, and class notes will be provided as necessary throughout the course. Students will also receive a copy of the course slides at the beginning of each session. Much of this material can also be downloaded from the course website.

The textbook provided for this course is: International Financial Management, 5<sup>th</sup> Edition, by Eun and Resnick, McGraw Hill-Irwin, 2009. ISBN978-0-0-7-338234-0.

Chapters from this book are listed in the syllabus as IFM and provide useful background and additional discussion of the topics discussed in class. Due to time considerations, we will not cover all of the topics in the text, although it is highly recommended that you read the entire text. In addition it will be assumed that students are thoroughly familiar with an introductory corporate finance textbook.

In addition to the text and the required readings, avid students of international finance will wish to stay on top of current issues by following additional sources on information. Recommended sources include:

The Economist - good economic analysis of occasional related issues.

Financial Times - good international company and capital markets section.

Euromoney – great international finance and banking coverage – a big read.

CFO – a practitioner magazine on financial management issues

Global Finance – best overall magazine for practical international finance issues

Student subscription rates are available for some of these publications. See the course website for more details.

## Groups

Each member of the class is encouraged become part of a study group consisting of *three to five* students. This group will work together and prepare answers to the discussion cases/problem sets (however, any student may elect to submit a minority opinion on an issue, if desired). Once a group is formed **it cannot be changed, so please choose your groups carefully**. Issues regarding free riding, shirking, etc. in groups work often more severe in the last year of a program, so be sure that you and your group internalizes such issues when forming. At the end of the course, group members will be asked to confidentially evaluate the participation of the other group members as an attempt to externally control such behavior. This evaluation will impact on the student's class participation score.

## Exam Policy

The exam is closed book although I will provide an equation sheet as the memorization of economic and financial formulas is not the goal of this course. Students need only bring a calculator and writing utensils to exams. *Absences from exams must be arranged in advance and make-up exams must be taken in advance of the actual exam unless there is a confirmed medical excuse*. For all exams students are expected to follow the Wharton honor code.

## Cases/Problem Sets

Problem sets and cases are to be submitted via email by the time at date indicated on the class outline. Groups are asked to choose a unique group name and include it in the name of the homework files (i.e., HW1\_FNCE731\_groupname.xxx) that are submitted via email. This facilitates me returning the correct graded submission to the right group.

The problem sets are meant as exercises to practice some of the material. Answers will be provided for the problem sets. Some of the cases will be the topic of discussion for a part of the class period, while others are meant purely as homework. Students should bring to class a copy of the case material for class discussion when indicated.

## Student Responsibility

This class operates under the Wharton Honor Code. Students are expected to do their own work (or work within their group). At no time is it permissible to use materials from former students or other sources that relate to problem sets or exams other than what is currently provided on the course website. Violations of this rule will be treated as a breach of the Honor Code.

## Contact

I will generally be available for questions at some point during each weekend. I am usually available before or after class periods or in the evenings on the double class weekends. Outside of these times the best way to contact me over will be email. During the week, if I am in the office I try to respond to emails within 24 hours, and often respond immediately. My email address is [bodnar@jhu.edu](mailto:bodnar@jhu.edu). If you wish to speak to me in person, my office number is (202) 663 - 7731. My fax number is (202) 663 - 7718. I encourage you to contact me if you have questions on the material.

There is a teaching assistant for the course. His name is Alex Demyanets. You are welcome to contact him with questions about the material if you cannot get hold of me. His email address is [ademyan1@jhu.edu](mailto:ademyan1@jhu.edu).

I have a webpage that I will use as a place to make available electronic copies of lecture notes (if you missed them in class), problems sets, cases and their solutions as well as and other sources of information regarding the class.

The address is <http://finance.wharton.upenn.edu/~bodnarg>  
(This page should also be accessible from the WEMBA webcafe)

Follow the links for Exec MBA EAST FNCE 731. This site also contains copies of the syllabus, class outline, a class announcement page. It will be operational by the first week of class. The course material can be found on a restricted the download page. Info on accessing the page will be provided at the first class.

## Course Outline

Readings: The required (non-text) readings can be found in the bulk pack (BP). IFM refers to *International Financial Management*, by Eun and Resnick. (OL) means the reading can be found on-line and (W) means the material can be found on the course website.

Date	Lecture #	Title	Assignment
9/4 1:00pm	1	<b>I. International Economic Relations Among Countries</b> <b>A. International Trade and Balance of Payments</b> <ol style="list-style-type: none"><li>IFM Chpt 1 Appendix 1A, Chpt 3</li><li><a href="#">Readings from World Trade Survey</a> from <i>Economist</i> 10/3/98 (BP#2, W)</li><li><a href="#">Is the US Current Account Deficit Sustainable?</a> R. Cooper, CESifo Forum, 2005 (BP#3, W)</li></ol> <p><u>For Fun (OL only):</u></p> <ol style="list-style-type: none"><li>US Bureau of Economic Analysis –US Trade /BOP data <a href="http://www.bea.doc.gov/bea/ai1.htm">http://www.bea.doc.gov/bea/ai1.htm</a></li></ol> <p><u>Practical Debate:</u></p> <ol style="list-style-type: none"><li><a href="#">The Overstretch Myth</a>, Levey and Brown, <i>Foreign Affairs</i>, Mar/Apr, 2005 (W)</li><li><a href="#">How Scary Is the Deficit?</a> Setser and Roubini, <i>Foreign Affairs</i>, Jul/Aug, 2005 (W)</li><li><a href="#">What businesses need to know about the US current-account deficit</a>, <i>McKinsey</i> 2007</li></ol>	
9/5 9:00a	2	<b>II. International Financial Markets</b> <b>A. Exchange Rate Basics and International Currency Markets</b> <ol style="list-style-type: none"><li>IFM: Chpt 5 and 6 (pp. 142 – 149 on PPP)</li><li><i>All About the Foreign Exchange Market in the United States</i>, FRBNY, Chpts <a href="#">2</a>, <a href="#">3</a>, <a href="#">4</a>, <a href="#">5</a>, and <a href="#">7</a> (BP#4, W, or OL at: <a href="http://www.newyorkfed.org/education/addpub/usfxm/">http://www.newyorkfed.org/education/addpub/usfxm/</a>)</li><li><a href="#">Big Mac Index</a>, <i>Economist</i> (BP#5, W or OL at <a href="http://www.economist.com/markets/bigmac/index.cfm">http://www.economist.com/markets/bigmac/index.cfm</a>)</li></ol> <p><u>Extra Analysis:</u></p> <ol style="list-style-type: none"><li><a href="#">A Prism into the PPP Puzzles</a> – Parsley and Wei (W)</li><li><a href="#">Triennial Survey of Foreign Exchange and Derivatives Market Activity 2007</a>, BIS 2007, (W, or OL at <a href="http://www.bis.org/publ/rpfx07.pdf">http://www.bis.org/publ/rpfx07.pdf</a>)</li></ol> <p style="text-align: center;"><b>Problem Set #1 (W): Due WED 9/30 11:59pm EDT (email to <a href="mailto:bodnar@jhu.edu">bodnar@jhu.edu</a>)</b></p>	
10/3 9:00am	3	<b>B. International Parity Conditions and Exchange Rate Behavior</b> <ol style="list-style-type: none"><li>IFM: Chpt 6 (remainder)</li><li>The Foreign Exchange Market in the United States, FRBNY, Chpt. <a href="#">11</a> (BP #6 or OL at <a href="http://www.newyorkfed.org/education/addpub/usfxm/">http://www.newyorkfed.org/education/addpub/usfxm/</a>)</li><li>Anomalies, Froot and Thaler, <i>JEP</i> 1990 (BP #7)</li></ol> <p><u>Advanced optional reading:</u></p> <p><a href="#">The Economics of Exchange Rates</a>, M Taylor, JEL (1995) (W)</p> <p style="text-align: center;"><b>Problem Set #2 (W) - Due WED 10/14 11:59p EDT (email to <a href="mailto:bodnar@jhu.edu">bodnar@jhu.edu</a>)</b></p>	
10/16 7:30 – 9:30pm	4	<b>C. International Monetary System</b> <ol style="list-style-type: none"><li>IFM: Chpt. 2</li><li>The Foreign Exchange Market in the United States, FRBNY, Chpt. <a href="#">10</a> (BP #8 or OL at <a href="http://www.newyorkfed.org/education/addpub/usfxm/">http://www.newyorkfed.org/education/addpub/usfxm/</a>)</li><li><a href="#">A Primer on Emerging Market Crises</a>, R Dornbusch, NBER paper (BP#9, W or OL at <a href="http://papers.nber.org/papers/w8326.pdf">http://papers.nber.org/papers/w8326.pdf</a>)</li></ol> <p><u>Good review of Excess Savings Story</u></p> <ol style="list-style-type: none"><li><a href="#">World Survey</a>, <i>Economist</i>, Sept 22, 2005 (excerpts) (W)</li></ol>	

10/17

9:00am

5 **III. The Impact of Exchange Rates on the Firm**

**A. Corporate Exposures to Exchange Rates, Identification and Measurement**

1. IFM Chpt 8 pp. 192 – 193, Chpt 9 pp. 223 – 232
2. [Corporate Exposures to Exchange Rates](#), classnote (BP #10 or W)
3. On the Measurement of Operating Exposure to Exchange Rates: A Conceptual Approach," Flood and Lessard, *FM* 1986. (BP #11)
4. Identifying, Measuring and Hedging Currency Risk at Merck, J. Lewent and A. Kearney, *JACF*, 1990 (BP #12).

Extra Reading on Translation Exposure:

[FAS #52-Measuring the Performance of Foreign Operations](#), B Carsberg 1983. (W)  
IFM: Chpt 10

**Case: Jaguar plc (BP#13) - Due 10/31 (in class) (also email copy to [bodnar@jhu.edu](mailto:bodnar@jhu.edu))**

10/31

9:00am

**Case Discussion: Jaguar plc 1984**

Case Discussion

6 **B. Why Should a Firm Hedge?**

1. Rethinking Risk Management, Stulz, *JACF*, 1996 (BP #14)
2. Framework for Risk Management, K. Froot, et al, *HBR* 1994. (BP #15)
3. Does Risk Management Add Value? A Survey of the Evidence, Smithson and Simkins, *JACF*, 2005 (BP#16)

**Sample Midterm Exams**

11/13

**MIDTERM EXAM Lectures 1-6 (in class 1:30 – 4:30pm)**

11/14

1:00pm

7 **C. Managing Exposure to Exchange Rates**

1. IFM: Chapter 8 (pp. 194 – 199) and Chpt 9 pp. 232 – 238
2. [Techniques for Managing Economic Exposure](#)," classnote (BP #17 or W)
3. [Wharton 1998 Survey of Financial Risk Management by U.S. Non-Financial Firms](#), (BP #18 or OL) <http://finance.wharton.upenn.edu/~weiss/research>

**Problem Set #3 (W) - Due WED12/2 11:59p EST (email to [bodnar@jhu.edu](mailto:bodnar@jhu.edu))**

12/4

9:30am

**IV. International Investment Analysis**

8 **A. Taxation of International Income and Transfer Pricing**

1. IFM Chapter 21
2. Taxation of International Operations, J. Baker, *International Finance*, 1998 (BP #19)
3. [Transfer Pricing](#), Chpt 5 by Schadewald and Misesy (BP #20, W)

12/5

8:00am

9 **B. Capital Budgeting for International Projects and Dealing with Political Risk**

1. IFM: Chpt 18 and IFM Chpt 16 pp. 405 – 412
2. [Valuation in Emerging Markets](#), *McKinsey*, Fall 2000 (BP #21)

12/5

9:00am

10

**C. Cost of Capital for International Projects**

1. IFM: Chapter 15 and 17 (pp. 417 – 428)
2. Exchange Rates and International Differences in the Cost of Capital, McCaulley and Zimmer, *FRBNY Quarterly Review*, 1994 (BP #22)
3. Globalization of Capital Markets and the Cost of Capital: The Case of Nestle, R. Stulz, *JACF*, Fall 1995 (BP #23)

**Case: Return of Lafarge (W) - Due in class 12/18 (email to [bodnar@jhu.edu](mailto:bodnar@jhu.edu))**

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12/18

9:30am

**Case Discussion : Return of Lafarge**

12/18

10:30am

11

**D. Global Financing**

1. IFM Chpts. 11, 12 and 13
2. Guidelines for Global Financing Choices, Lessard and Shapiro, *MCFJ*, 1983 (BP #24)

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12/19

**SECOND EXAM Lectures 7 – 11 (in class 1:00 – 4:00)**

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Additional material for the cases will be handed out in class. Other supplemental news articles may also be distributed. Lecture notes will be distributed at the beginning of each lecture.