



## FNCE 208/731 International Corporate Finance Spring 2010

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Office hours: Rm 2252  
Tues 4:30-5:30p  
by appt on Wed

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### Course Description

This course will cover issues related to both international financial markets and the financial operations of a firm within the international environment. Topics will include the structure and functioning of the international currency and money markets, identification, measurement, and management of the impact of exchange rate changes on the firm; issues related to cross border valuation, FDI, M&A and project financing and financing choices in a global market. While the course discusses theoretical basis on the various issues, it also mixes in empirical evidence and discussion of firms' actual behaviors.

### Prerequisites

A thorough knowledge of FNCE601/100 is assumed and knowledge of material from FNCE 602/101 will be helpful.

### Course Grading

To receive credit for the course, each student will be responsible for writing 2 course exams. The first course exam will be in class on **THURSDAY MARCH 4, 2010**. The second class exam will be in class on **THURSDAY APRIL 22, 2010**. Students will also be responsible for handing in several problem sets and case write-ups as part of a study group. There is also a capstone case that is worked on over the course of the semester. The final grade will be determined by the following weights:

First Course Exam	30%
Second Course Exam	25%
Problem Sets and Discussion/Homework Cases	25%
Capstone Case	10%
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

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.

Non-textbook readings of the course will be available through Study.net. Other handouts, such as problem sets, case setups, and class notes will be provided as necessary throughout the course.

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 of 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.

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 required to become part of a study group consisting of *four to six* 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.

## 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.

## 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(or 208)\_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.

## Capstone Case

Early in the term, I will hand out a capstone case for the course, GM's Plant X – Brazil that each research group will have the remainder of the semester to work on. It is project evaluation case that requires the students to build a fully developed set of financials for the project in an Excel spreadsheet (Balance Sheet, Income Statement, Statement of Cash Flows, Debt Amortization, etc). During the first part of the semester, students get to work on developing their financial model building skills. Groups are required to turn in a functioning set of financial statements by noon on **March 19, 2010**. Subsequent to that date, the model will be used to financially evaluate the viability of the project from the point of view of the parent, General Motors, USA. Discussions of the evaluation of the project using the model will be the topic of the last lecture in the course on **April 27, 2010**, at which time the final write ups are due. This capstone casework will count for 10% of the course grade.

## Contact

I am a visiting professor from Johns Hopkins University's School of Advanced International Studies in Washington DC. I live outside DC and will be commuting up to Philadelphia and for most weeks plan to be in Philadelphia on Tuesdays, Wednesdays and Thursdays. I teach back-to-back-to-back from 10:30am to 2:50pm on Tuesday and Thursdays and plan to be available for office hours from 4:45 – 5:45 on Tuesday or by appointment on Wednesdays. Outside of these times the best way to contact me will be email. I encourage you to contact me if you have questions on the material.

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>

Follow the links for FNCE 208/731 Spring 2010. 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: Required readings can be found in the textbook (IFM), the web, the course download page, or the Study.net course page. Links will be provided later.

<u>Date</u>	<u>Session #</u>	<u>Title and Readings</u>	<u>Homework Assignment</u>
Jan 14, 19, 21	1 - 3	<p><b>Exchange Rates, Real and Forecasted</b>                      IFM: Chpts 5 and 6  <i>All About the Foreign Exchange Market in the United States</i>, FRBNY, Chpts 2, 3, 4, 5, 7, and 11.                      Big Mac Index, <i>Economist</i>  <u>Extra Analysis:</u> A Prism into the PPP Puzzles – <i>Parsley and Wei, WP 2004</i>                      Triennial Survey of Foreign Exchange and Derivatives Markets 2007 – <i>BIS, 2007</i>                      Understanding Exchange Rates as Asset Prices – <i>Wang, <a href="http://www.voxeu.org">www.voxeu.org</a></i>                      Effective Exchange Rate Example – <i>Excel sample</i>.</p>	<b><u>Problem Set #1 - Exchange Rates - Due Jan 29 12:00pm</u></b>
Jan 26, 28	4, 5	<p><b>Measuring Multinational Activities</b>                      IFM: Chpt 10                      Accounting for Multinational Operations - <i>class note</i>.                      Nike 2008 Annual Report (10K section) - <i>find on-line</i></p>	<b><u>Problem Set #2 - International Measurement - Due Feb 5 12:00pm</u></b>
Feb 2, 4	6, 7	<p><b>Exchange Rate Exposure</b>                      IFM: Chpt 8 pp. 192 – 193, Chpt 9 pp. 227 - 232                      Corporate Exposures to Exchange Rates, - <i>class note</i>.                      On the Measurement of Operating Exposure to Exchange Rates: A Conceptual Approach, - <i>Flood and Lessard MCFJ 1984</i>  <u>Extra Analysis:</u> Exchange Rate Exposure: A Simple Model, - <i>Bodnar and Marston</i></p>	
Feb 9	8	<p><b>Measuring Exposure</b>                      IFM: Chpt 9 pp. 223 - 227                      Identifying, Measuring and Hedging Currency Risk at Merck – <i>Lewent et al, JACF, 1984</i></p>	<b><u>Discussion Case: Jaguar plc, 1984 – Due Feb 16 in class</u></b>
Feb 11	9	<p><b>Why Hedge Exposure</b>                      The Rationale for Risk Management – <i>Smithson et al, <u>Managing Financial Risk</u></i>                      Rethinking Risk Management – <i>Stulz, JACF 1996</i>                      Does Hedging Add Value? - <i>Smithson et al, JACF, 2005</i></p>	
Feb 16	10	<b>Discussion of Jaguar case</b>	
Feb 18	11	<p><b>Managing Exposure – Transaction Exposure</b>                      IFM: Chpt 8 pp. 194 – 211                      Techniques for Managing Economic Exposure, - <i>class note</i>.</p>	<b><u>Problem Set #3 – Hedging - Due Mar 1 12:00pm</u></b>
Feb 23, 25	12, 13	<p><b>Managing Exposure – Operating Exposure</b>                      IFM: Chpt 9 pp. 234 – 240, Chpt 14, and Chpt 7 pp. 172 - 184                      Wharton 1998 Survey of Risk Management by US Non-Financial Firms – <i>Bodnar et al</i></p>	

Mar 2	14	<b>In-class review for first course exam</b>	<u>Sample Past Exams</u>
Mar 4	15	<b>First Course Exam (sessions 1-14)</b>	
Mar 9, 11		<b>SPRING BREAK</b>	
Mar 16, 18	16, 17	<b>International Taxation and Transfer Pricing</b> IFM: Chpts. 21 and 19 pp. 476 – 480 Taxation of International Operations - <i>Baker</i> Transfer Pricing – <i>Chapter 5</i>	
		<u>(D) Homework Case: Dallas Semiconductor - Due Mar 26 12:00pm</u>	
Mar 19	12:00pm	<u>Spreadsheets for GM's Plant X - Brazil Case (email to <a href="mailto:bodnarg@wharton.upenn.edu">bodnarg@wharton.upenn.edu</a>)</u>	
Mar 23, 25	18, 19	<b>International Investment Analysis: Capital Budgeting and Political Risk</b> IFM: Chpt. 18 and 16 Valuation in Emerging Markets - <i>McKinsey Quarterly</i>	
		<u>Discussion Case: The Return of Lafarge (Bodnar) - Due Apr 6 in class</u>	
Mar 30, Apr 1	20, 21	<b>International Investment Analysis – FDI and Foreign Cost of Capital</b> IFM: Chpt. 15 and 17 Globalization of Capital Markets and the Cost of Capital – <i>Stulz</i> Emerging Markets aren't as Risky as You Think - <i>McKinsey Quarterly</i>	
Apr 6	22	<b>Discussion of Lafarge Case</b>	
Apr 8	23	<b>International Project Finance</b> Project Finance Primer – <i>Groobey from Baker and McKinsey (web)</i> . Using Project Finance to Fund Infrastructure Investments – <i>Brealy, Cooper and Habib, JACF</i> .	
Apr 13, 15	24, 25	<b>Financing in Global Markets</b> IFM: Chpts. 11, 12 and 13 Guidelines for Global Financing Choices - <i>Lessard and Shapiro, MCFJ</i>	
		<u>Final Write-up for GM's Plant X - Brazil Capstone Case - Due Apr 27 in class</u>	
Apr 20	26	<b>In-class review for second course exam</b>	<u>Sample Past Exams</u>
Apr 22	27	<b>Second Course Exam (sessions 16-25)</b>	
Apr 27	28	<b>Discussion of GM's Plant X – Brazil Case</b>	

Copies of the lecture slides and materials for the problem sets and homework cases will be made available on the course web page at the week prior to their appearing on the schedule. Other supplemental articles may also be distributed via the webpage.