

Wharton

UNIVERSITY OF PENNSYLVANIA

FNCE 208: International Corporate Finance

Spring 2013

(Preliminary – Subject to Change)

Professor Karen Lewis Office Hours
2446 SH-DH: Tuesday 1:30-3:00 and by appointment

Course Syllabus

Goal of Course:

The goal of the course is to address the special problems encountered by the international financial officer, specifically:

- Cash flows in multiple currencies and the associated problems related to nominal contracts;
- Exchange rates misalignment relative to local costs and the associated problems related to competitiveness;
- Calculating the costs of capital internationally in the presence of partially segmented capital markets;
- Repatriating cash flows from multiple tax jurisdictions and the associated problems of minimizing the tax burden.

These four issues will be addressed in this course with the objective of preparing the student for careers in corporations with operations abroad or for careers in the investment banks or consulting firms that advise these corporations.

Course mechanics: The course will be in lecture format along with case discussions approximately every week.

Class participation: Roughly 45% of the class time is spent on case discussions and it is not possible to have these discussions without student participation. Therefore, there will be two components to the participation grade. (a) Attendance: Attendance will be taken on a random basis by “cold call” questions to students on the class list. No penalty will be assessed to wrong answers but absences will be noted. (b) Discussion: Willingness to volunteer to help discuss case questions will also be noted for each student.

Overall Grading: To arrive at a final course grade, a numerical weighted average will be computed for four components: (a) 6 case write-ups; (b) 4 case problem sets; (c) 2 midterm exams; and (d) course participation. The write-ups and problem sets are to be done in groups. Of these deliverables, you may drop **one** case write-up and **one** case problem set.

The numerical weighted average will be calculated as follows:

Group Write-ups (5 total after drop): 40% => 8% per case

Group Problem Sets (3 total after drop): 7.5% => 2.5% per problem set

Midterm Exams: 40% => 20% per exam
 Class Participation: 10%
 Group Participation: 2.5%

Details on these components are given below.

Group Assignments - There are 10 group assignments, typically in the form of business cases. Four of these cases only require a short problem set. The other seven assignments involve written case submission. As with actual practice in business, all of the cases are written to focus on issues, not answers, and as such may be ambiguous. There are often no “right answers” to cases, just good arguments and bad arguments for taking particular actions or decisions. There is sometimes a limited amount of quantitative information on which to make a decision and thus it may be impossible to compute a precise numerical answer.

“Case write-ups” require an explanation of your answers. Some of the assignments also include a computer submission either in the form of a simulation or a spreadsheet which you will prepare.

“Problem sets” require a brief summary of problem set answers. The table details the submission due dates.

Exams – There are two midterm exams that are to be done individually. The first midterm exam will be in class. The second midterm exam will be a take home case write-up.

| Assignment | Type | Due Date* | Download Site | Submission Button |
|-------------------------------|----------------------------|---------------|---------------|-------------------|
| 1. GE Toys | Simulation* & Write-up | Jan 30 | IEMAV #1 | IEMAV #1 |
| 2. Livingston Chemicals | Simulation* & Write-up | Feb 6 | IEMAV #2 | IEMAV #2 |
| 3. Expose’ Part 1 (Tektronix) | Simulation* & Write-up | Feb 13 | IEMAV #4 | IEMAV #4 |
| 4. Expose’ Part 2(Jaguar) | Simulation* & Problem Set | Feb 18 | IEMAV #5 | IEMAV #5 |
| Midterm #1 | In Class Exam | Feb 25 | None | None |
| 5. Royal Dutch Shell | Problem Set | Mar 13 | Webcafe’ | IEMAV #6 |
| 6. Foreign Company Analysis | Presentation & Spreadsheet | Mar 20 | IEMAV #7 | IEMAV #7 |

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|---|------------------|---------------|----------|-----------|
| 7. Hozho | Write-up | Mar 27 | Webcafe' | IEMAV #8 |
| 8. Globalizing the Cost of Capital at AES | Problem Set | Apr 3 | Webcafe' | IEMAV #9 |
| Midterm #2 (LaFarge) | Take Home | Apr 10 | Webcafe' | IEMAV #10 |
| 9. Petrobras | Write-up | Apr 17 | Webcafe' | IEMAV #11 |
| 10. Alba's Potline | Problem Set | Apr 22 | Webcafe' | IEMAV #12 |

* 10:30 AM *except for simulations which are due 8:30 AM night before*

Group Participation - Students will be required to form “groups” for each group assignment. Each group will have a fixed “salary” which can be allocated across students depending upon who the group feels has made the most contribution. Students with a higher “salary” assigned by their group will be awarded a higher group participation grade.

Groups for Assignment Submissions:

For each of the cases and exercises, the students will form groups with **a maximum size of four**. Sign up for groups must be done on-line via the IEMAV (International Exposure Management and Valuation) site. A link to this site is available under “Link” on Webcafe'.

Reading material:

- Cases: All copyrighted cases are available for purchase in a bulkpack at Wharton Reprographics.
- Lecture Notes, Slides, Additional Reading: All these material are posted on the course Webcafe'. Slides will be posted prior to the class in which they are discussed.

Prerequisites: A thorough knowledge of Corporate Finance (FNCE 100) is assumed.

Re-grade procedure:

- Please write a brief explanation of why you believe a question on your assignment was improperly graded. *Send an email to me with this explanation.* The assignment will be reviewed by the TAs and me. I will then inform you about whether the grade is has been changed and the reason why.
- Requests for regrades may be submitted **only up to two weeks** after the graded assignment or exam has been returned to your mailfolder.
- Please note that regrades sometimes result in lowering the grade when it appears that some credits were not deserved after closer re inspection.

Course Topics by Class

Note: For Class numbers, please see class calendar.

Part 1: International Cash Flow Risk and Exchange Rate Hedging

1. Overview: Exchange Rates and Cash Flows

Readings: My Notes (MN), Section I,

2&3. Interest Rate Parity and Forward Rates

Readings: MN, Section II

4. Standard Hedging with Forward Exchange

Readings: MN, Section III

5. Hedging I: Standard Hedging with Options

Readings: MN, Section IV

6. Hedging II. Multi-year cash flows

Readings: MN, Section V

7. Assignment 1: GE Toys Case Discussion

8. Real Exchange Rate Risk

Readings: MN, Section VII

9. Assignment 2: Livingston Chemical Case Discussion

10. Foreign Exchange Exposure

Readings: MN, Section VIII

11. Assignment 3: Expose' #1 (Tektronix) Case Discussion

12. Assignment 4: Expose' #2 (Jaguar) Case Discussion

13. Midterm Review

14. MIDTERM 1: In class

Part 2: Valuing Cash Flows Across Borders

15. Shareholders International Portfolio Risk (Section A)

Readings: MN, Section VIII

SPRING BREAK

16. Shareholders International Portfolio Risk (Section B)

17. Assignment 5: Royal Dutch and Shell Case Discussion

18. Tax planning and intra-corporate fund flows

Readings: Baker, J. C., International Finance, chapter 17: "Taxation of International Operations".

19. Assignment 6: Foreign Company Class Presentation

20. International Cost of Capital and Budgeting

Readings: Dumas, B., "Capital Budgeting: an Analytical Framework," classnote, February 2002.

Lessard, D. R., "Incorporating Country Risk in the Valuation of Offshore Projects," *Journal of Applied Corporate Finance*, 1996, 52-63.

21. Assignment 7: Hozho Case Discussion

22. International Valuation

23. Assignment 8: Globalizing Cost of Capital AES Case Discussion

24. Political Risk and Corporate Governance

25. MIDTERM 2: LaFarge Acquires BCI Case Discussion

26. International Financing and Sovereign Risk

Readings: To be posted on webcafe'

27. Assignment 9: Petrobras Evaluates Pecom Discussion

28. Assignment 10: Alba's Potline Project Discussion