

# Wharton

UNIVERSITY OF PENNSYLVANIA

## **FNCE 731: 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.

\* **SPECIAL MESSAGE TO FIRST-YEARS** The first group assignment is at the end of DIP week. Please make sure that you have joined a group *before* DIP so that you do not get behind in the assignments. Thank you. \*

**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	<b>Jan 30</b>	IEMAV #1	IEMAV #1
2. Livingston Chemicals	Simulation* & Write-up	<b>Feb 6</b>	IEMAV #2	IEMAV #2
3. Expose' Part 1 (Tektronix)	Simulation* & Write-up	<b>Feb 13</b>	IEMAV #4	IEMAV #4
4. Expose' Part 2(Jaguar)	Simulation* & Problem Set	<b>Feb 18</b>	IEMAV #5	IEMAV #5
<b>Midterm #1</b>	<b>In Class Exam</b>	<b>Feb 25</b>	None	None

5. Royal Dutch Shell	Problem Set	<b>Mar 13</b>	Webcafe'	IEMAV #6
6. Foreign Company Analysis	Presentation & Spreadsheet	<b>Mar 20</b>	IEMAV #7	IEMAV #7
7. Hozho	Write-up	<b>Mar 27</b>	Webcafe'	IEMAV #8
8. Globalizing the Cost of Capital at AES	Problem Set	<b>Apr 3</b>	Webcafe'	IEMAV #9
<b>Midterm #2 (LaFarge)</b>	<b>Take Home</b>	<b>Apr 10</b>	Webcafe'	IEMAV #10
9. Petrobras	Write-up	<b>Apr 17</b>	Webcafe'	IEMAV #11
10. Alba's Potline	Problem Set	<b>Apr 22</b>	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 course 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:**

- a. Cases: All copyrighted cases are available for purchase in a bulkpack at Wharton Reprographics.
- b. 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 611 or 612) is assumed.

**Re-grade procedure:**

1. 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.

2. Requests for regrades may be submitted *only up to two weeks* after the graded assignment or exam has been returned to your mailfolder.

3. 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**