



## FNCE 208/731 International Corporate Finance

Fall 2014

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Office hours: Rm TBD

Wed 3:15 - 4:30p or

by appt on Mondays

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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 **WEDNESDAY OCT 22, 2014**. The final exam will be on the final exam date for the class session (TBD). 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 Course Exam	30%
Final Exam	30%
Problem Sets and Discussion/Homework Cases	30%
Class/Group Participation	10%

Grades for problem sets and cases will be given on credit/no credit basis with groups receiving No Credit being given a chance to resubmit a corrected assignment for Partial Credit (50%). Outstanding submissions may be awarded Credit Plus (150%) credit. Group/class participation score is based both upon participation in class as well as the study groups (as evaluated by your study group members at the end of the term). Scores on the above items are normalized to mean of 80 and standard deviation of 10 (exams) or 3 (problem sets/cases) before combining with the weights for a total course score. Final grades will be assigned using a curved distribution. For students who show an exceptional improvement in performance on the final exam (an increase of at least one standard deviation in relative score) the weights will be changed to 10% for the midterm and 50% for the final. 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, 7<sup>th</sup> Edition, by Eun and Resnick, McGraw Hill-Irwin, 2014. ISBN 978-0-07-786160-5.

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 the normal means. 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. Please contact me for more details if you are interested.

## 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 be an input into each student's class participation score.

## Exam Policy

The exams are 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 electronically 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.

## **Recorded Materials**

For general interest and material review purposes as well as possible scheduling issues, I occasionally make recorded presentation of some materials of general interest and or segments of course lectures for review or as a substitute for a late night or early morning make-up session. These will be voice over PowerPoint presentations and will be loaded onto the course websites in self-contained presentation format. The format is Adobe Flash based so that it will not be possible to directly view these materials on your iPad or other Apple device unless it is set up to run the Adobe Flash content (try Puffin or Skyfire browsers).

## **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 on teaching days. On these days I will be on campus from about 11:00 – about 4:30. I teach back to back from 12:00 pm to 2:50pm on Monday and Wednesday and plan to be available for office hours from 3:15 – 4:30 on Wednesday or by appointment on Mondays. 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.

## **Tutorials**

There will be teaching assistants for this course. Information regarding the time and location of TA sessions will be announced during the first week of the course. See course website for information.

## 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>Dates</u>	<u>Session #</u>	<u>Title and Readings</u>	<u>Homework Assignment</u>
Per course reading		IFM: Chpt 2	
Aug 27 Sep 3, 8, 10	1 - 4	<p><b>Exchange Rates, Real and Forecasted</b>                      IFM: Chpts 5, 6 and 3  <i>FX Primer</i>, by Shani Shamah, Wiley 2008; Chpts 1,3,4,7,and 8, (CP#2, or W)  <a href="http://www.economist.com/markets/bigmac/index.cfm">Big Mac Index</a>, <i>Economist</i> (CP#3, or <a href="http://www.economist.com/markets/bigmac/index.cfm">http://www.economist.com/markets/bigmac/index.cfm</a>)                      Triennial Survey of Foreign Exchange and Derivatives Market Activity 2013,  <i>Bank for International Settlements</i>, (CP#4 or <a href="http://www.bis.org/publ/rpfx13fx.pdf">http://www.bis.org/publ/rpfx13fx.pdf</a>)</p> <p><u>Extra Analysis:</u> A Prism into the PPP Puzzles – Parsley and Wei, <a href="http://www.nber.org/papers/w10074">www.nber.org/papers/w10074</a>                      Understanding Exchange Rates as Asset Prices – Wang, <a href="http://www.voxeu.org">www.voxeu.org</a>                      Effective Exchange Rate Example – <i>Excel sample file</i>.</p>	<p><b><u>Problem Set #1a - Exchange Rate Basics - Due Sep 10 12:00pm</u></b>  <b><u>Problem Set #1b – Parity Conditions and Forecasting Exchange Rates - Due Sep 22 12:00pm</u></b></p>
Sep 15, 17	5, 6	<p><b>Measuring Multinational Activities</b>                      IFM: Chpt 10                      Accounting for Multinational Operations – <i>Bodnar class note</i>.                      Nike 2012 Annual Report (10K section) - find on-line</p>	<p><b><u>Problem Set #2 - International Measurement - Due Sep 29 12:00pm</u></b></p>
Sep 22, 24	7, 8	<p><b>Exchange Rate Exposure</b>                      IFM: Chpt 8 pp. 198 – 199, Chpt 9 pp. 230-235                      Corporate Exposures to Exchange Rates – <i>Bodnar class note</i>.                      On the Measurement of Operating Exposure to Exchange Rates: A Conceptual Approach, - <i>Flood and Lessard MCFJ 1984</i></p> <p><u>Extra Analysis:</u> Exchange Rate Exposure: A Simple Model, - <i>Bodnar and Marston</i></p>	
Sep 29	9	<p><b>Measuring Exposure</b>                      IFM: Chpt 9 pp. 227 - 229                      Identifying, Measuring and Hedging Currency Risk at Merck – <i>Lewent et al, JACF, 1984</i></p>	<p><b><u>Discussion Case: Jaguar plc, 1984 – Due Oct 6 classtime</u></b></p>
Oct 1	10	<p><b>Why Hedge Exposure</b>                      IFM: Chpt 8 pp. 211-13                      Rethinking Risk Management, Stulz, JACF, 1996.                      Framework for Risk Management, K. Froot, et al, HBR 1994.                      Does Risk Management Add Value? A Survey of the Evidence, Smithson and Simkins, JACF, 2005.</p>	
Oct 6	11	<p><b>Discussion of Jaguar case</b></p>	

Oct 8	12	<b>Managing Exposure – Transaction Exposure</b> IFM: Chpt 8 pp. 200 - 211 Techniques for Managing Economic Exposure, - <i>Bodnar class note.</i> <b><u>Problem Set #3 – Hedging - Due Oct 20 12:00pm</u></b>
Oct 13, 15	13, 14	<b>Managing Exposure – Operating Exposure</b> IFM: Chpt 9 pp. 236 – 240, Chpt 14, and Chpt 7 pp. 181 - 184 <b><u>Sample Past Exams</u></b>
Oct 20	15	Corporate Risk Management Behavior and Exam Review Managing Risk Management, <i>Bodnar et al</i> ( <a href="http://ssrn.com/abstract=1787144">ssrn.com/abstract=1787144</a> )
Oct 22	16	<b>First Course Exam (sessions 1-14)</b> in class
Oct 27, 29	17, 18	<b>International Taxation and Transfer Pricing</b> IFM: Chpts. 21 and 19 pp. 476 – 480 Taxation of International Operations, J. Baker, <i>International Finance</i> , 1998. Transfer Pricing, Chpt 5 by Schadewald and Misyey. <b><u>(D) Homework Case: Dallas Semiconductor - Due Nov 10 12:00pm</u></b>
Nov 3, 5	19, 20	<b>International Investment Analysis: Capital Budgeting and Political Risk</b> IFM: Chpt. 18 and 16 Valuation in Emerging Markets - <i>McKinsey Quarterly</i> <b><u>Discussion Case: The Return of Lafarge (Bodnar) - Due Dec 1 classtime</u></b>
Nov 10, 12	21, 22	<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>
Nov 17	23	<b>International Project Finance</b> Project Finance Primer, <i>Groobey et al.</i> WSGR (at <a href="http://www.wsg.com/PDFSearch/ctp_guide.pdf">www.wsg.com/PDFSearch/ctp_guide.pdf</a> ) Using Project Finance to Fund Infrastructure Investments – <i>Brealy, Cooper and Habib, JACF.</i>
Nov 19, 24	24, 25	<b>Financing in Global Markets</b> IFM: Chpts. 11, 12 and 13 Guidelines for Global Financing Choices - <i>Lessard and Shapiro, MCFJ, 1984</i>
Nov 26		No Class
Dec 1	26	<b>Discussion of Lafarge Case</b>
Dec 3	27	<b>In-class review session for final exam</b> <b><u>Sample Past Exams</u></b>

**Final Exam (sessions 17-27) (final exam period TBD)**