

Wharton

UNIVERSITY OF PENNSYLVANIA

International Corporate Finance, FNCE 731/FNCE 208 Fall 2015

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Office Hours
Monday: 3:00-4:30 or by
appointment, 2438 SH-DH

Course Syllabus

Description of topics: The course begins by asking how are exchange rates and financial markets related – by arbitrage and by equilibrium pricing relationships, and how can foreign exchange risk be hedged. Then the focus shifts to longer-term issues of international corporate finance. Key corporate financial issues are explored including exchange rate exposure, taxation, securities pricing, sovereign risk, the cost of capital, and the evaluation of foreign projects.

Prerequisites: A thorough knowledge of FNCE 611/100 (Corporate Finance) is assumed.

Reading material: A bulk-pack is available online.

Text: Class notes prepared by Prof. Karen Lewis provide an invaluable introduction to many of the topics in the course. These class notes are available on the web café. There is no textbook in the course. For later topics in the course not covered by Prof. Lewis's notes, there are chapters taken from textbooks included in the bulkpack.

Cases: There are four cases, one sovereign risk project, and four problem sets/exercises that will be discussed in class. Students must form case study groups of 3 to 5 students to prepare the cases and other assignments. All team members are responsible for these assignments. *Every student in the group must retain a copy of the write-up and bring it to the class where the case or problem set is discussed. Assignments are due at the beginning of class. If group members attend different classes, the assignment must be submitted in the earlier class.*

Grading: You must submit all of the cases and exercises. The exams are also mandatory.

The final grade will be awarded as follows:

Exams: 60%
Cases, projects and problem sets: 35%
Class participation: 5%

A numerical weighted average will be computed. The numerical grade distribution will dictate the final grade, according to the faculty's recommended grade distribution.

Important Notice: There will be two mid-term exams on the following dates:

Wednesday, October 21st (in class)
2nd exam to be announced in September

Please make a note of these dates. There will be no specific makeup exams for these exams. If either exam is missed, it is necessary to take a makeup exam covering the entire course to be given at the beginning of the spring term. *There will not be a final exam in the course.*

Exam policy:

In the exams, students will be allowed to bring in a one-page "formula sheet". Calculators will also be needed. Exams may (almost surely will) contain questions regarding cases. There will be a review session on the Monday night before each exam.

Course Topics

Note: For dates of each class and due dates for assignments, see the course schedule.

FIRST HALF

Classes 1-3. Short-run exchange rate behavior: interest parity and expectations

Notes by Prof. Karen Lewis (Lewis notes), Section I, "Introduction to Foreign Exchange and Eurocurrency Markets"
Lewis notes, Section II, "Forward Hedging and Interest Parity"

Assignments (due in later classes – see schedule):

Problem set on Arbitrage

Classes 4 and 5: Long-run exchange-rate behavior: PPP and Real exchange rates

Lewis notes, Section V, "PPP and Real Exchange Rate Risk"

Assignment (due in later classes – see schedule):

*Case 1: Cemex: Cross-Currency Debt and Exchange Risk
(Thunderbird)*

Classes 6 and 7: Hedging I: Hedging with Forwards and Options

Lewis notes, Section III, “Hedging Part 1: Foreign Exchange Options” (Part B only)

Assignment: *Case 2: to be distributed*

Problem set on Hedging I (due later – see schedule)

Classes 8, 9, and 10. Hedging II: Multi-year cash flows and hedge ratios

Lewis notes, Section IV, “Hedging Part 2: Longer Term Cash Flows”

Assignment: Problem set on Hedging II (due later – see schedule)

Classes 11-12: Foreign Exchange Exposure

Lewis notes, Section VI, “Exchange Rate Exposure”

Bodnar and Marston, “A Simple Model of Foreign Exchange Exposure”, in *Economic Theory, Dynamics, and Markets* (Kluwer Academic Publishers, 2001), pp. 275-286.

Assignment (due in a later class – see schedule):

Case Study 3: Jaguar plc – 1984 (HBS)

Class 13-14: International Debt Pricing

Bekaert, Geert, and Robert J. Hodrick, *International Financial Management*, Pearson Prentice Hall, 2012, Chapter 11, “International Debt Financing,” 354-384 only.

Assignment: Problem Set on International Debt

Review Class (Monday, October 19, 7 p.m.)

EXAM # 1 (Wednesday, October 21st in class)

Special Topics: In addition to the assigned topics listed, there will be special topics introduced when time is available.

- Special Topic 1: The “Euro” - Origins
- Special Topic 2: Mexican Devaluation of December 1994
- Special Topic 3: The “Greek” crisis
- Special Topic 4: Argentina and Brazil: Shifting Fortunes
- Special Topic 5: Do Countries Inevitably Slow Down?

SECOND HALF

Class 16: International Equity Pricing

Lewis notes, Section VII, “International Portfolio Investment and Cross-Border Valuation”

Bekaert, Geert, and Robert J. Hodrick, *International Financial Management*, Pearson Prentice Hall, 2011, Chapter 13, “International Capital Market Equilibrium”, 428-473.

Class 17-18: Cost of Capital for International Investments

Lewis notes: Section IX “International Cost of Capital”

Bodnar, G., B. Dumas, and R. Marston, “Cross-Border Valuation: the International Cost of Equity Capital,” *Globalizing: Drivers, Consequences and Implications*, INSEAD-Wharton Alliance Volume, Fall 2004.

Assignment: Case Study 4: GM Plant X Brazil
Partial submission – (see instructions for case and schedule)

Class 19. Sovereign Risk

Lewis notes, Section XI, “Country and Political Risk”

Assignment: Sovereign Risk Project (due Wednesday, November 18th)

Class 20-21: Capital Budgeting for International Investments

Lewis notes: Section X “International Capital Budgeting and Valuation”

“Note on Adjusted Present Value”, HBS 9-293-092, October 1994

Eun-Resnick, *International Financial Management*, 2015, 7th edition,
“International Capital Budgeting,” Chapter 18, pp. 457-475.

David Eiteman, Arthur Stonehill, and Michael Moffet, *Multinational Business Finance*, 2013, 13th Edition, Chapter 18, "Multinational Capital budgeting", pp. 490-524.

Assignment:

Case Study 4: GM Plant X – Brazil (rest of case – due Wed, November 18th)

Class 22: Sovereign Risk Lecture by Jeffrey Lefleur of WP Carey (Monday, Nov 16th)

Class 23: Discussion of GM Plant X – Brazil Part 2 (Wednesday, November 18)

Class 24: Presentations of Sovereign Risk Project (Monday, Nov 23)

Class 25: International Taxation

Lewis notes: Section VIII “Tax Dimension and Planning”