

Wharton

UNIVERSITY OF PENNSYLVANIA

International Corporate Finance, FNCE 731/FNCE 208 Fall 2016

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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: Cases and readings as well as class charts are available on Study.net.

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 Canvas. 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 Study.net readings.

Cases: There are three 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.*

Grading: You must submit write-ups for the case studies, the sovereign risk project and one of the four problem sets. The exams are 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 26th (in class)
Wednesday, November 30th (in class)

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 at 6 p.m..

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 (see schedule distributed in class and posted on Canvas):
Problem set on Arbitrage (does not need to be submitted)

Classes 4 and 5: Hedging I: Hedging with Forwards and Options

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

Assignment: *Case 1: Triple Net Inc.* (due Wednesday, October 5)

Problem set on Hedging I (due Wednesday, Sept 28)

Classes 6-8. 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 and Hedge Ratios II (does not need to be submitted)

Classes 9-10: Long-run exchange-rate behavior: PPP and Real exchange rates

Lewis notes, Section V, “PPP and Real Exchange Rate Risk”

Assignment: Problem set on Expectations (does not need to be submitted)

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: *Case Study 2: Jaguar plc – 1984 (HBS)* (due Wed, October 19th)

Classes 13, 16: 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 (does not need to be submitted)

Review Class (Monday, October 24, 6 p.m.)

Class 14: EXAM # 1 (Wednesday, October 26th 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 15: Sovereign Risk

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

Assignment: *Sovereign Risk Project* (due Wednesday, November 9th)

Class 17: 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 18-19: 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 3: GM Plant X Brazil Part 1* (due Wednesday, November 16)

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 3: GM Plant X – Brazil, Part 2 (due Wednesday, December 7)

Class 22: International Taxation

Lewis notes: Section VIII “Tax Dimension and Planning”

Class 23: Sovereign Risk Lecture by Jeffrey Lefleur of WP Carey (Monday, Nov 28th)

Review class: Monday, November 28, 6 p.m.

Class 24: EXAM # 2 (Wednesday, November 30 in class)

Class 25: Presentations of Sovereign Risk Project (Monday, December 5)

Class 26: Discussion of GM Plant X – Brazil Part 2 (Wednesday, December 7)