

# Wharton

UNIVERSITY OF PENNSYLVANIA

## **FNCE 731: International Corporate Finance Spring 2017**

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

### **Course Syllabus**

#### **Learning Objectives:**

In this course, you will learn how to evaluate problems encountered by the international financial officer of a corporation, including how to:

- Assess the company's risk exposure due to cash flows that may be denominated in foreign currency and how to manage that risk;
- Consider the effects of inflation differences across countries on company competitiveness and profitability;
- Calculate the international cost of capital
- Understand issues involved with company valuations across countries;
- Understand basic differences in international tax treatments across countries and their impact upon repatriation of foreign cash flows, the cost of capital, and valuation.

#### **Who Would Benefit From This Class?**

Studying the topics in this course generally benefits students who are preparing for careers that either work directly with international corporations or else evaluate these corporations. For example, understanding these topics is often useful for work in:

- Companies with operations abroad or
- Firms that consult or work with these international companies or
- Private equity firms and hedge funds that potentially invest in these companies
- Entrepreneurs or small businesses considering foreign sales or operations.

**Course expectations:** In order to focus upon real world problems faced by companies, this course uses many case examples. I will present some in lecture format to highlight business problems. Other cases require group write-ups or short problem set solutions and will be discussed in class. In addition, there will be two in-class midterm exams. The calendar for these cases and exams are below as well as on Canvas.

**Overall Grading:** To arrive at a final course grade, a numerical weighted average will be computed for six components: (a) 2 in-class midterm exams; (b) 3 group case write-ups or 2 group case write-ups and a short presentation on a foreign company; (c) a group capstone case write-up; (d) 2 problem sets, and (e) course participation. Also, two of the write-ups and one problem set include a short computer simulation.

All assignments may be done with a group, or individually, according to your preference.

The numerical weighted average will be calculated as follows:

1. Midterm Exams (2 total): 40% => 20% each
2. Write-ups and/or presentation (3 total): 27% => 9% each
3. Capstone Case (1 total): 15%
4. Problem Set (2 total): 8%=> 4% each
5. Class Participation: 10%

Details on these components are given below.

**1. Exams** – There are two in-class midterm exams. Summary reviews of the topics covered will be presented in a lecture format during the class period before each exam. Old exams will be posted to provide sample questions and answers.

**2. Regular Write-ups** – Three of the business cases require write-ups addressing both qualitative and quantitative issues. 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.

*Alternatively*, there is a spreadsheet analysis for a foreign company along with a brief (5 minute) presentation. This assignment counts the same as the write-ups.

The lowest grade among these four potential assignments will be dropped so that only 3 write-ups or 2 write-ups and a presentation matter for the grade. Therefore, you may choose not to turn in one of these assignments.

**3. Capstone Case** – To synthesize the topics you will have learned throughout the semester, there will be an extended capstone write-up at the end of the course. This write-up cannot be dropped.

**4. Problem Sets** – For three of the business cases, a “problem set” will be assigned that will only require submitting the answers to some objective quantitative questions. The lowest grade for the problem set assignments will be dropped and you may therefore choose not to turn in one assignment so that only 2 problem sets matter for the course grade.

**5. Class participation:** There are two components to the participation grade.

(a) Attendance: Attendance counts two-thirds towards the participation grade. It will be taken every case discussion day (generally Wednesdays) and on a random basis on other days. I take attendance promptly at the beginning of the class so as not to take up class-time. Therefore, if you are late to class, please let me know at the end of that class period that you were in attendance if you want to be counted as present.

(b) Discussion: A discussion grade will count one-thirds towards the participation grade. The discussion grade will generally depend upon your willingness to give answers when called upon (whether right or wrong) and also your willingness to volunteer to help discuss case questions. A participation grade will be posted twice a semester on Canvas as “check”, “check+” or “check –”.

**Groups** - To submit assignments, you will form a “Group” through the IEMAV site (accessible through Canvas). This step must be followed whether you are working alone or with others. *Please note that the system requires you to follow this step every time you submit an assignment.* The group sign-up procedure will be covered in detail during class. Generally, students prefer to form a group early in the semester and keep with that group throughout. Nevertheless, students sometimes prefer to submit some assignments individually or to join a different group during the course of the semester. These changes are straightforward through the IEMAV site and do not require permission from me. *The maximum number of students permitted in a group is 4.*

**Course Materials, Submissions, and Other Basic Information:**

All course materials will be accessible through the Canvas site. All submissions will be done on the IEMAV site (accessible through Canvas). The table below summarized the due dates and submission buttons on IEMAV.

<b>Assignment</b>	<b>Type</b>	<b>Due Date*</b>	<b>Submission Location</b>
1. GE Toys	Write-up & Simulation*	<b>Feb 1</b>	IEMAV
2. Livingston Chemicals/Porsche	Problem Set & Simulation*	<b>Feb 8</b>	IEMAV
3. Expose’ and Jaguar	Write-up & Simulation*	<b>Feb 15</b>	IEMAV
<b>Midterm #1</b>	<b>In Class Exam</b>	<b>Feb 22</b>	Class
4. Global Cost of Capital at AES	Problem Set	<b>Mar 15</b>	IEMAV
5. Foreign Company Analysis	“Write-up” (Presentation)	<b>Mar 22</b>	IEMAV
6. Hozho	Problem Set	<b>Mar 29</b>	IEMAV
7. AES Tiete	Write-up	<b>Apr 5</b>	IEMAV
<b>Midterm #2</b>	<b>In Class Exam</b>	<b>April 12</b>	Class
8. <b>The Return of LaFarge</b>	<b>Capstone Write-up</b>	<b>Apr 26</b>	IEMAV

\* *Simulations are due by 8:30 AM to allow me time to prepare for class*

**Reading material:**

a. *Cases*: All copyrighted cases are available for purchase in a bulkpack at Wharton Reprographics through Study.Net. All non-copyrighted cases are available on Canvas.

b. *Lecture Notes, Slides, Additional Reading*: All these material are posted on Canvas. Slides will be posted prior to the class in which they are discussed.

**Prerequisites:** A thorough knowledge of Corporate Finance (FNCE 611 or FNCE 612) is assumed.

**Re-grade procedure:**

1. Please write a brief explanation of why you believe a question on your assignment or exam 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 has been changed and the reason why.

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

3. Please note that regrades may potentially result in lowering the grade.

**Course Topics by Class**

**Note:** For dates of each Class numbers, please see class calendar under Canvas.

**Part 1: International Cash Flow Risk and Exchange Rate Hedging**

**Module 1. Overview: Exchange Rates and Cash Flows**

*Class Number: 1- Overview*

*Readings:* Lecture Notes, Chapter 1

**Module 2: Interest Parity and Hedging Single Cash Flows with Forwards**

*Class Numbers: 2 to 3 - Interest Rate Parity and Standard Hedging with Forwards*

*Readings:* Lecture Notes, Chapter 2

**Module 3: Hedging Single Cash Flows with Options**

*Class Numbers: 4 – Standard Hedging with Options*

*Readings:* Lecture Notes, Chapter 3

**Class 6. GE Toys Case Discussion**

**Module 4: Hedging Multi-Period Cash Flows**

*Class Numbers: 5 – Hedging Multi-Periods*

*Readings:* Lecture Notes, Chapter 4

**Class 8. Livingston Chemical/Hedging at Porsche Case Discussion**

**Module 5: Real Exchange Rate Risk and Exposure**

*Class Numbers: 7 – PPP and Real Exchange Rate Risk*

*Readings: Lecture Notes, Chapter 5*

*Class Numbers: 9 – Exchange Rate Exposure*

*Readings: Lecture Notes, Chapter 6*

**Class 10. Expose’#1 (Jaguar) Case Discussion**

**Module 6: IN CLASS MIDTERM – Part 1 Summary**

**Class 11. Midterm Review**

*Readings: Old Exams on Canvas*

**Class 12. MIDTERM 1: In class**

**Part 2: Valuing Cash Flows Across Borders**

**Module 7: Shareholders Risk**

*Class Numbers: 13 & 14: International Portfolio Risk*

*Readings: Lecture Notes, Chapter 7*

*Readings: Royal Dutch Shell Case*

**Module 8: International Cost of Capital**

*Class Number 15 & 17: International Cost of Capital Lectures*

*Readings: Lecture Notes, Chapter 8*

**Class 16. AES Globalizing the Cost of Capital Discussion**

**Class 18. Foreign Company Analysis Discussion**

**Module 9: International Taxes, Corporate Fund Flows, and Inversions**

*Class Number 17 & 19: International Taxes Lectures*

*Readings: Lecture Notes, Chapter 9*

*Readings: International Tax Notes HBS*

*Readings: Corporate Inversions: Stanley Works and the Lure of Tax Havens*

**Class 20. Hozho Case and Corporate Inversions Discussion**

**Module 10: International Capital Budgeting**

*Class Number 21: International Budgeting Lecture*

*Readings: Lecture Notes, Chapter 10*

**Class 22. AES Tiete Case Discussion**

**Module 11: IN CLASS MIDTERM – Part 2 Summary**

**Class 23. Midterm Review**

**Class 24. MIDTERM 2: In class**

**Module 12: International Valuation**

*Class Number 25 & 26: International Valuation Lecture*

*Readings: Lecture Notes, Chapter 11*

**Module 13: Assessing Country and Sovereign Risk**

*Class Numbers 27: Country and Sovereign Risk Lecture*

*Readings: Lecture Notes, Chapter 12*

**Module 14: COURSE SUMMARY – Capstone Case**

**Class 28. LaFarge Case Discussion**