

# Wharton

UNIVERSITY OF PENNSYLVANIA

## International Corporate Finance, FNCE 731/FNCE 208 Fall 2017

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Office Hours  
Monday: 3:00-4:30 or by  
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### 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, securities pricing, sovereign risk, the cost of capital, taxation, 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 problem sets. The exams are mandatory.

The final grade will be awarded as follows:

Exams: 60%

Cases, projects and problem sets: 30%

Class participation: 10% (including discussion of cases and other assignments)

A numerical weighted average will be computed.

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

**Wednesday, October 18<sup>th</sup> (in class)**  
**Wednesday, November 29<sup>th</sup> (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* (due Wednesday, September 13)

Problem set on Expectations (does not have 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 **Monday**, October 2<sup>nd</sup>)

Problem set on Hedging I (does not have to be submitted)

### **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:** *Case 2 Cemex: Cross Currency Debt and Exchange Rate Risk* (due Wednesday, October 11<sup>th</sup>)

Problem set on Real Rates (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.

### **Review Class (Monday, October 16, 6 p.m.)**

### **Class 13: EXAM # 1 (Wednesday, October 18<sup>th</sup> 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?
- Special Topic 6: Brexit

## **SECOND HALF**

### **Class 14: Sovereign Risk**

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

**Assignment:** *Sovereign Risk Project* (due Wednesday, November 8<sup>th</sup>)

### **Classes 15-16: 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)

### **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 15)

**Class 20: Sovereign Risk Lecture** by Kathleen Barthmeier, Managing Director at WP Carey (Monday, Nov 20<sup>th</sup>)

## **Class 21-22: Capital Budgeting for International Investments**

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

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

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

### **Assignment:**

*Case Study 3: GM Plant X – Brazil, Part 2* (due Wednesday, December 6)

## **Class 23: International Taxation**

Lewis notes: Section VIII “Tax Dimension and Planning”

**Review class: Monday, November 27, 6 p.m.**

**Class 24: EXAM # 2 (Wednesday, November 29 in class)**

**Class 25: Presentations of Sovereign Risk Project** (Monday, December 4)

**Class 26: Discussion of GM Plant X – Brazil Part 2** (Wednesday, December 6)