

Wharton

UNIVERSITY OF PENNSYLVANIA
FNCE731/231 (formerly 208)
International Corporate Finance
Spring 2021

Professor KK Lewis: Email lewisk@wharton.upenn.edu

Classes: Monday and Wednesday

- 10:30 -11:50 am Zoom URL:

<https://upenn.zoom.us/j/96557395481?pwd=eW95ajVmTFpNi95VjBVRE53eVRqdz09>

- 12:00-1:20 pm Zoom URL:

<https://upenn.zoom.us/j/96255956073?pwd=Vlh0WEIwekJuMy9MS3g5YU9ITzNqZz09>

Office Hours: Tuesday 1:30-3:00 and by appointment

Note to Shoppers – Please join one of the classes at the URL above; If you would like to have access to the Canvas site or you have trouble joining, please email me.

Course Syllabus

Learning Objectives:

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

- Analyze/manage risk exposure due to cash flows denominated in foreign currency;
- Evaluate the impact of inflation differences on company competitiveness/profitability;
- Calculate the international cost of capital
- Understand how to value projects and companies across countries;
- Understand basic 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 invest in these companies
- Entrepreneurs or small businesses considering foreign sales or operations.

A. 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.

B. Course format: As required by the University, the class will be taught on-line using the Zoom connection through Canvas.

B. 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% (*Accommodations for students in different time zones*)
6. Extra Credit: No points; may only matter for students between course letter grades

Details on these components are given below.

1. **Exams** (40% of grade)– There are two in-class midterm exams (accommodations will be made for students in significantly different time zones.) 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.
Please note: Since material in the course changes over time, not all potential types of questions will be reflected in old exams.

2. **Regular Write-ups** (27% of grade)– 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.

For one of these assignments, the “Foreign Company Analysis” in the list below, 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 (15% of grade)– 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 (8% of grade)– Three of the business cases only require submitting the answers to some objective quantitative questions in the form of “problem sets.” 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 (7% of grade): Attendance counts 70% towards the participation grade (with accommodations for students in significantly different time zones.) It will be taken every case discussion day 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.

Note: If you are late to the virtual 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 (3% of grade): A discussion grade will count 30% 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 –“.

6. Extra Credit: No extra credit is given on group cases or exams. Extra credit may be given on some other grade components such as problem sets. This credit is not included in the calculation of the final course grade. However, if a student’s course grade falls in between a letter grade at the end of the semester, the extra credit may help move the final grade to the higher level.

C. Groups - To submit assignments, you will form a “Group” through the IEMAV site (accessible through Canvas). *The maximum number of students permitted in a group is 4.* The website requires you to form a “group” whether you are working alone or with others. Please note that the IEMAV 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.

Oftentimes, 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. You may make these changes through the site. *You do not need my permission to change teams.*

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.

Assignment	Type	Due Date*	Submission Location
1. Great Eastern Toys: Hong Kong	Write-up & Simulation*	Feb 8	IEMAV
2. Livingston Chemicals	Problem Set & Simulation*	Feb 15	IEMAV
3. Expose' and Jaguar	Write-up & Simulation*	Feb 22	IEMAV
Midterm #1	During Class Exam	Mar 1	Canvas
4. Global Cost of Capital at AES	Problem Set	Mar 17	IEMAV
5. Foreign Company Analysis	“Write-up” (Presentation)	Mar 24	IEMAV
6. International WACCs	Problem Set	Mar 31	IEMAV
7. AES Tiete	Write-up	Apr 7	IEMAV
Midterm #2	During Class Exam	Apr 14	Class
Carla Nunes, Managing Director, Office of Professional Practice, Duff & Phelps	Guest Speaker	Apr 21	Class
8. The Return of LaFarge	Capstone Write-up	Apr 28	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 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 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 along with a scanned copy of your assignment.* 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 you or made available for your pickup.
3. Please note that regrades will cover the entire assignment and therefore 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. Great Eastern 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 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

Class 16. AES Globalizing the Cost of Capital Discussion

Module 8: International Cost of Capital

Class Number 15 & 17: International Cost of Capital Lectures

Readings: Lecture Notes, Chapter 8

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

Class 20. International WACCs 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

Midterm Review

Class 23. MIDTERM 2: In class

Module 12: International Valuation

Class Number 24: International Valuation Lecture

Readings: Lecture Notes, Chapter 11

Guest Speaker: Class Number 25

Module 13: Assessing Country and Sovereign Risk

Class Numbers 26: Country and Sovereign Risk Lecture

Readings: Lecture Notes, Chapter 12

Module 14: COURSE SUMMARY – Capstone Case

Class 27. LaFarge Case Discussion