

International Financial Management

C45.0030.001

Fall 2003

T&R, 9:30 – 10:45am

Tisch Hall, UC-59

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Course Description and Objectives

In this course we will explore the characteristics of international financial markets and evaluate the associated risks and benefits involved in operating globally. We will examine all issues through two lenses: that of a multinational enterprise, and that of an individual investor. Companies operating globally are different from their domestic counterparts due to their exposure to foreign exchange fluctuations, political risks, etc. In this course we will address the distinct risk exposures multinationals face (as opposed to purely domestic firms), the available financial tools they use to address them, their capital budgeting, their tax and working capital management, their capital structure, their investment decisions, and the specificity of their valuation. We will further look into the perspective of the international investor – what is the cost and benefit of international portfolio diversification, and what are the available instruments (currency swaps, futures and options, etc) to conduct diversification. In relation to the above two viewpoints we will explore the structure of the international financial markets. We will discuss who are the main players, what are the major instruments, and what is the structure of these markets. We will also look into the main determinants of foreign exchange fluctuations.

Blackboard Forums

This course will rely on Blackboard – class materials (lecture presentations, problem set assignments, quiz-related materials, articles related to class) and discussions will be online. I hope that there will be active student discussion online as well. When appropriate, I will post student questions and my replies online so that other students may benefit as well. Further, I will post answers to questions from your one-minute memos (more on it below). In addition, all lecture presentations will also be posted at my webpage, <http://www.stern.nyu.edu/~llitov/teaching.html>.

Textbook

We will be using the following textbook:

“Fundamentals of Multinational Finance,” by M. Mofett, A. Stonehill, and D. Eiteman, published by Addison Wesley, First Edition, 2003.

You can obtain it either from the bookstore where I have ordered copies of it or through online booksellers, such as <http://www.amazon.com>.

I urge to obtain copies of the textbook, since it is well written, and we will be using it starting week 1. I plan to use it as a reference point throughout the course. Ad-hoc assignments will be given from it too. A feature of this textbook is that it also provides several useful online tools, such as self-assessment quizzes, web exercises, selected solutions to problems in the textbook, a glossary of terms in the textbook, etc., at the website of the publisher,

http://wps.aw.com/aw_moffett_fundmult_1/0,5906,227125-,00.html.

Course Requirements

Following is the scale that I will use to evaluate your performance in this class:

Individual work		Group Work	
- Class Participation	10 %	- Case Study team presentation	15 %
- Individual Case Study Write-up	10 %		
- Quizzes (five)	35 %		
- Final Exam	30 %		
		85%	15%

The finance department has set grading standards for undergraduate advanced electives, such as this course, that I intend to adhere to (A: 10%, A-: 15%, B+: 10%, B and B-: 40 to 50%, C+ and C: 15 to 25%, for more on that please refer to the chairman's memo at the Finance department course web page, <http://www.stern.nyu.edu/fin/>). Below is a description of the individual components in the grading schedule.

Course participation (10 %)

We will have 29 sessions and attendance is required for every session. Given the time constraint, if you are absent for more than five classes I will reduce your class participation grade with a full letter grade for every additional skipped class.

Class participation

In order to get a good grade on the class participation section I will expect you to answer question in class and to provide comments on answers given by your fellow students. *Participation quality (thoughtfulness of comments or questions) is valued more than participation quantity (frequency of comments/ questions).* However, if you make no comment throughout the whole class that will typically result in a grade of B- on your class participation. Most of the A and A- that I will give shall have participated actively in the discussions.

Please come prepared for class. It is required that you be ready to talk about the readings and cases that were assigned for that day. Class participation involves not just a thorough analysis of the readings, but also developing a position on the relevant issues. If for some reason you are not prepared fully on a particular day, please let me know before class so I do not embarrass you, so that we can find better time for you to answer class questions. To facilitate class participation, at the beginning of each class I might randomly choose five to ten students that I will ask questions and expect to participate actively in the class discussion for that day.

One-minute memos

The second way to obtain credit for class participation is by giving comments on the 1-minute memos. The purpose of the one-minute memo is to establish a direct link of communication from you to me so that I can assess the class's grasp of the main points of the day, identify unclear points, and address other concerns. I want students to feel they can be open and honest in these memos, and so I will grade them Pass/Fail. "Pass" means that you attempted to hand in something that attempted to respond to my questions. "Fail" means you handed in nothing. Your grade is not affected by what you communicate to me in these memos. If you are absent, I will have a record of your absence by not having your memo. Usually, answers to your questions in the one-minute memo will be available online by next day.

Problem Sets

At the end of each unit (part) of our course, I will assign problem sets (these will be problems in the textbook). Problem sets will help you better review the material for quizzes and final exam. Although these problem sets will not be graded, I will keep record of who turns them in. I will look through a small sample of problem sets each time to gauge the level of student comprehension. If the problem sets indicated that the class is moving at the wrong pace, I will adjust the course schedule as appropriate to reflect your

needs and capabilities. If you have a question on the homework, please indicate that when you submit, so that I can specifically address your question.

If your final grade is on the border between two categories (e.g. A vs. A- or A0 vs. B+), your grade will definitely not be bumped up if you've failed to complete at least 75 % of the problem sets.

I will distribute solutions to the problem sets on the day when they were turned in. Therefore, no credit will be given for late submissions. If you are going to be late or absent, you can have the problem sets delivered to the instructor's office (KMEC 7-177) or fax them to the instructor at 212-995-4218. Materials delivered through these services must arrive no later than 15 minutes prior to the start of the class to receive credit. Problem sets received after that time will not be accepted.

Case study individual write-up (10 %)

One week after your case study team makes its class presentation in class, you will submit individual write-ups. Your write-up may include some of what was presented in class but should focus on your own analysis and conclusions *even if that is not the same as what your group said in class*. If you disagree with what was presented, please explain why. Although I will not accept team write-ups, it is acceptable that you discuss the case with your classmates. However, once you begin putting your thoughts in writing, you must not communicate with your classmates. It is an honor code violation to view anyone else's written preparation of the case.

Your write-up should not exceed 4 double-spaced pages. If you are having trouble keeping it to four pages, check to make sure that you aren't summarizing or restating information from the case. Your case reports should be "analytical" (i.e. explaining how concepts covered in the class apply to the situation described in the case) as opposed to "descriptive" (i.e. just a summary of segments from the case).

Quizzes (35 %)

There will be five quizzes, 20 to 30 minutes each. Quizzes will be a mixture of multiple-choice questions and short answer questions. The dates of the quizzes are spelled out in the course outline at the end of the syllabus. In case you miss a quiz, I will re-distribute that quiz weight on your other quizzes. If you do not sit on any of the quizzes, I will put all of the quiz weight towards the final's grade. No make-up quizzes will be given. However, if you have legitimate reason to miss the quiz, you can contact me, so that we arrange for you to take it prior the scheduled date. Usually, grades for the quizzes shall be available on the day following the quiz.

Final examination (30 %)

The exam will be cumulative on the material from the entire course. The date and location will be determined by the registrar. I have tentatively scheduled it for Dec. 12th, Friday, 10am-12noon. If you have legitimate reasons not to come to the final please let me know in advance so that I can schedule earlier time for you to take it. On the structure of the exam, 80 % of it will be pulled out directly from the previous examples from class, lecture presentations, assignments, quizzes, or suggested exercises. The other 20 % will be used to see if you can apply the course concepts to more advanced problems.

Case studies group presentation (15 %)

I will include in the class contents 12 case studies. You will work in small teams to prepare these cases. There will be ten 4-students teams and two 5-students teams. The deadline for forming these will be **Tuesday, Sept. 9th**. You must be present on the date when we form the teams.

Each team shall present a case study from the textbook or from a reputable business publication at the beginning of each class. Presentations shall be no more than 10

minutes, followed immediately by 5 minutes Q&A. Then we will have 2 minutes break and continue with the class for that day. Each member of the team should speak briefly during the presentation.

If you select a case study from the textbook, please send me an email with the page reference no later than one week in advance of the date of your presentation. That is, you have to notify me on the preceding Tuesday, if you present on Tuesday, and on the preceding Thursday, if you present on Thursday. Further, if you choose to present a case from the textbook, you may wish to add update it/ additional materials to make class discussion more interesting.

If you prefer to select a case study from a reputable business publication (e.g. WSJ, NYT, Economist, Business Week), you must discuss its topic with me in advance. Please contact me on your case study of choice two weeks in advance. In general, you may choose any topic that interests you, provided it involves at least 1-2 issues studied in class. If I approve of the selected case, you must give me a hard copy of the materials no later than one week before your presentation date. I will make photocopies of the cases for distribution to the entire class unless you have selected a case from the textbook. To access WSJ, NYT, Economist, Business Week, etc, you may wish to use the online portal, www.factiva.com that provides free-of-charge access to articles for NYU students. To get access to it, you have to follow the instructions at the NYU virtual business library webpage, http://www.nyu.edu/library/bobst/vbl/jn_art.html

On **Tuesday, September 9th**, we will have the in-class lottery to determine the dates for each group's presentation. Note that if you have selected a case study from the textbook, you will be automatically assigned to present your case study close to the date when we go through the corresponding chapter. If two or more groups of students work out mutually agreeable plans to swap presentation dates, they may do so after getting my approval. So if you know that certain dates are bad for you based on your other commitments, you may wish to attempt a date swap with your classmates.

Since work in teams requires equal participation of all members I will evaluate your case study presentation based on two components. First, I will assess the quality of your presentation on a group basis. Group tasks shall be given group rewards. This means that you not only must make a direct contribution to the development of the case study, but that you also have an obligation to make your team work efficiently. Second, I will ask you to rate your fellow team members contribution to the project. For that purpose you shall use the peer evaluation form that I will post online. You have to send me an email with your peer evaluation form on the day following your presentation.

A problem sometimes associated with group projects is that a team member might not do his/her share of the job. You are urged not to let problems develop to the point where they become serious. Groups often ignore problems, wishing that they disappear. Try to solve the problems among yourselves. If you can't, bring it to me. If I am convinced that someone has not carried his/her fair share for any reason – I will reduce that person's grade for the group project as low as to 0 if I believe that it is warranted.

Assignment Considerations

When you submit written assignments and case study individual write-ups please use the following guidelines:

1. All assignments and case analyses shall be typewritten.
2. Use font of 11 or higher and print your assignments on letter format paper (like the format of the paper on which this syllabus is printed).
3. Ensure that the use of course concepts you use are appropriate and clearly spelled out.
4. Emphasize evidence – avoid passive voice and long sentences.
5. Verify your spelling before submitting your assignment.
6. Be precise. If you find a problem difficult to solve, it is better to acknowledge it (and I will appreciate your honesty) rather than submit a vague answer (which is easy to tell).

7. If you use material that is not yours, you need to give appropriate credit to its author.

All written assignments are due at the beginning of the class. If you are going to be late or absent, you can have the assignment emailed to llitov@stern.nyu.edu, or delivered to the instructor's office (KMEC 7-177), or fax it to the instructor at 212-995-4218.

Materials delivered through these services must arrive no later than 15 minutes prior to the start of the class to receive credit. Late submissions will be penalized at the rate one letter grade per day late.

Office Hours

I will hold office hours Tuesday: 1pm – 2 pm, Thursday: 2pm – 3pm. You can also schedule an appointment with me. Another way to reach me is by email. I will post my replies to your questions from the one-minute memos on the Blackboard page for the course.

Seating Chart

By **September 4th** you have to pick your seat in UC-59. Once settled, that will be your seat in the classroom for the semester.

Honor code

Consistent with Stern's honor code, your quizzes, problem sets, and group reports must be solely your own work. Any attempt to represent the work of others as your own will be considered plagiarism and will be referred to the Stern discipline committee. Penalties for academic offenses such as plagiarism and cheating have ranged from probation to expulsion.

Course Schedule

I intend to adhere to the schedule below, but depending on the class level, if we need to slow down on certain topics or move fast on others, then I would have to adjust this schedule slightly.

Part I: Global Financial Markets	
09/02, T	<p>Readings: Syllabus.</p> <p>Class: Course overview. Review of the syllabus. Review of the Blackboard webpage for the course.</p> <p>Student introduction. Discuss group project.</p> <p>Distribute student information sheet.</p>
09/04, R	<p>Readings: Chapters 1 & 2.</p> <p>Class: Business Effects of Globalization: why being global is different? Corporate governance of global businesses. What is exchange rate regime? Analyze different types of currency regimes. History of exchange rate regimes.</p> <p>Deadline: Student information sheet <u>with photo</u> is due. Final date to pick you seat in the classroom.</p>
09/09, T	<p>Note: Distribute problem set 1. <u>Lottery for dates for group presentations.</u></p> <p>Please be present for the lottery.</p> <p>Readings: Chapter 3.</p> <p>Class: The Accounting of the Balance of Payment. Components of the balance of payment: the current account and the capital account.</p> <p>Deadline: Last day to form/ change teams for the case study.</p>
09/11, R	<p>Readings: Chapters 3 & 4.</p> <p>Class: How are interest rates and foreign exchange rates linked? Interest rate parity. Covered interest rate arbitrage.</p>

Part II: Foreign Exchange Theory	
09/16, T	<p>Readings: chapter 4.</p> <p>Class: How forward markets reflect expectations of future spot rate? How do spot and forward markets align with interest rate and expected inflation differentials? Uncovered interest arbitrage.</p> <p>Deadline: Problem set 1 due.</p>
09/18, R	<p>Note: Distribute solutions to problem set 1. Review of problem-set-1 answers. Review for quiz 1.</p> <p>Readings: Chapter 5.</p> <p>Class: Can balance of payments dynamics explain exchange rate movements? Review of the three approaches to forecasting foreign exchange rates. Overview of some recent financial crises: Russia, Brazil, and Turkey.</p>
09/23, T	<p>QUIZ 1 (covers chapters 1,2,3, and 4)</p> <p>Readings: Chapters 5 & 6.</p> <p>Class: Finish the discussion of chapter 5. Overview of the foreign exchange market: its size, participants, and instruments.</p>
09/25, R	<p>Note: Case study #1. Distribute problem set 2 (focuses on options).</p> <p>Readings: Chapters 6 & 7.</p> <p>Class: What is the language of the forex market quotations? Foreign Currency Derivatives. Foreign Currency Futures. Currency options. Markets for foreign exchange derivatives.</p>

Part III: Foreign Exchange Exposure	
09/30, T	<p>Readings: chapter 7.</p> <p>Class: Overview of the put and call options. Explore the views of the buyer & writer of a call, and the views of the buyer & writer of a put.</p>
10/02, R	<p>Note: Case study #2. Review of problem set 2 answers.</p> <p>Readings: Chapter 8.</p> <p>Class: Introduce the three main operating exposures experienced by firms. Analyze the forex transaction exposure. Identify the alternatives available to address operating exposure: Forward Market Hedge, Money Market Hedge, and Options Market Hedge.</p> <p>Deadline: problem set 2 is due.</p>
10/07, T	<p>QUIZ 2 (covers Chapters 5, 6, and 7)</p> <p>Readings: Chapters 8 & 9.</p> <p>Class: Finish the discussion on chapter 8 by conducting a comparison of the alternatives to hedge transaction exposure. Start discussion on operating exposure. Examine the origins of the operating exposure. Alternatives to manage operational exposure.</p>
10/09, R	<p>Note: Case study #3. Distribute problem set 3.</p> <p>Review of answers to quiz 2.</p> <p>Readings: Chapters 9 & 10.</p> <p>Class: Finish the discussion of operating exposure. Introduce translation exposure. Analyze different translation methods.</p>

Part IV: Financing The Global Firm	
10/14, T	<p>Note: Case study #4,</p> <p>Readings: Chapters 10 & 11.</p> <p>Class: Global Cost and Availability of Capital.</p>
10/16, R	<p>Note: Case study #5. Review of answer to problem set 3. Review for quiz 3.</p> <p>Readings: Chapter 11.</p> <p>Class: WACC. Cost of capital of MNE and domestic firms.</p> <p>Deadline: Problem set 3 is due.</p>
10/21, T	<p>QUIZ 3 (covers chapters 8,9, and 10)</p> <p>Readings: Chapter 12.</p> <p>Class: Motives and alternative instruments to source equity globally.</p>
10/23, R	<p>Note: Case study #6. Review of results from Quiz 3.</p> <p>Distribute problem set 4.</p> <p>Readings: Chapter 13.</p> <p>Class: Is there optimal capital structure for multinationals? Determinants of the financial structure of the foreign subsidiaries. Overview of available international debt instruments.</p>
10/28, T	<p>Note: Case study #7.</p> <p>Readings: Chapter 14.</p> <p>Class: How to manage interest rate risk? Overview of interest rate swaps and cross-currency swaps.</p>
10/30, R	<p>Note: Case study #8.</p> <p>Readings: Chapters 14 & 15.</p> <p>Class: Finish discussion of interest rate and cross-currency swaps. Why firms go global? How to invest abroad? Overview of the modes of foreign investment.</p> <p>Deadline: problem set 4 is due.</p>

Part V: Foreign Investments	
11/04, T	<p>Note: Review for quiz 4. Review of answers to problem set 4.</p> <p>Readings: Chapters 15 & 16.</p> <p>Class: Capital Budgeting for Multinationals. How to value a foreign project? Project versus parent valuation. Shall we use discounted cash flow valuation or real options analysis?</p>
11/06, R	<p>QUIZ 4 (covers chapters 11, 12, 13, and 14)</p> <p>Readings: Complete chapter 16</p> <p>Class: Finish discussion on capital budgeting.</p>
11/11, T	<p>Note: Review of answers to quiz 4. Case study #9.</p> <p>Readings: chapter 17.</p> <p>Class: What are the main risk factors in a foreign investment? Overview of firm-, country-, and global-specific risks.</p>
11/13, R	<p>Note: Case study #10. Distribute problem set 5.</p> <p>Readings: Chapter 18.</p> <p>Class: Why multinationals go for cross-border M&A? Overview of Valuation Techniques.</p>
11/18, T	<p>Note: Case study #11.</p> <p>Readings: Chapter 19.</p> <p>Class: Finish the discussion on valuation techniques. Does international portfolio diversification add value? Calculation of portfolio risk and return.</p>

Part VI: Managing Capital Internationally	
11/20, R	<p>Note: Review of solutions to problem set 5. Review for quiz 5.</p> <p>Readings: Chapter 19.</p> <p>Class: Measuring equity market performance across borders. The international CAPM.</p> <p>Deadline: problem set 5 is due.</p>
11/25, T	<p>QUIZ 5 (covers chapters 15, 16, 17, 18, and 19)</p> <p>Readings: Chapter 20.</p> <p>Class: What are the differences between tax systems around the globe? Overview of tax principles and tax types.</p>
11/27, R	Have a happy Thanksgiving!
12/02, T	<p>Note: Review of quiz 5 answers.</p> <p>Readings: Chapter 20.</p> <p>Class: U.S. Taxation of foreign source income.</p>
12/04, R	<p>Note: Case study #12</p> <p>Readings: Chapter 22.</p> <p>Class: How multinationals manage their working capital and international cash positions? Financing working capital.</p>
12/09, T	<p>Note: Fill in instructor evaluation form.</p> <p>Class: Finish discussion on chapter 22. Review sample questions for final exam.</p>
Exam week (tentatively scheduled for 12/12, Friday, 10am - 12am)	FINAL EXAM – good luck on the final, and in all other finals you have!