

INTERNATIONAL FINANCE



MGMT 657 Spring Term II, 2008

COURSE DESCRIPTION

This course focuses on advanced financial management issues encountered in global competition and international capital markets. Specific topics include (1) the economics and operation of the foreign exchange markets; (2) currency risk management and derivative securities; (3) cross-border capital budgeting and financing sources; and (4) risk and return in international investments. * A number of tools and techniques are covered to explore the strategic role of the finance function in a multinational firm. Learning will be centered on class discussions, lectures, case studies, and exercises.

COURSE MATERIALS

Textbooks

- (Required) Butler, Kirt C., 2008, *Multinational Finance*, 4th ed., Thomson South-Western.

If you wish to have more references, the following books are recommended (note: Chapter 18 from Eun and Resnick may be included in the packet *if* I get permission, though I have not yet as of 3/4/08.). I will put all these books on reserve at the Whitaker Library for 2 hour room use. They are also available for purchase at the book store.

- (Recommended) Eun, Cheol S., and Bruce G. Resnick, 2007, *International Financial Management*, 4th ed. (ISBN-13: 978-0-07-299686-9), McGraw-Hill.
- (Recommended) Eiteman, David K., Arthur I. Stonehill, and Michael H. Moffett, 2007, *Multinational Business Finance*, 11th ed., Addison-Wesley.

Course Packet

Packets of cases, book chapters, and supplemental readings will be delivered to each registered student's mailbox. Additional readings will be delivered as necessary.

Lecture Notes

Lecture notes will generally be distributed in class. They will also be posted on Owlspace.

COURSE PREREQUISITES

The prerequisites for the course are MGMT 543 (core Finance). The course requires algebra, statistical analysis, and spread-sheet analysis.

* The course does *not* cover international taxation or international accounting.

EXERCISES

The exercises are designed to internalize the principles presented in the course. There are four exercises, one each for the four major topics. The exercises should be completed in a group of **no more than three (3)**. Each assignment is due at the beginning of the class on the due date.

1. **FX exercise:** covers basic concepts and international parity conditions.
2. **Dozier Industries case:** analysis on international risk management issues using currency derivatives.
3. **Cross-border Cap. Budgeting exercise:** foreign project valuation.
4. **International Risk and Return exercise:** a data-driven investment exercise.

EXAM

There will be a take-home final exam. It is comprehensive, covering both tools and concepts addressed throughout the course. Expect questions based on the exercises and cases to appear in the exam.

GRADES

Class performance is assessed on the basis of the exercises, a final exam, and class participation. The graded components receive the following weight in the final grade:

FX Exercise (groups)	10%
Dozier Industries Case (groups)	10%
Cross-border Capital Budgeting Exercise (groups)	10%
International Risk and Return Exercise (groups)	10%
Final Exam (individual)	50%
Class participation (individual)	10%

The take-home final exam should be completed individually. You should build in time to write and proofread anything you turn in for this course. Letter grades for the course are distributed on a curve. In the past, the average GPA has fallen in the 3.50 – 3.85 range with 40–60% of the class receiving A's, 30–50% B's, and 0–10% C's and below. An A+ is given for excellent work in each category along with valuable class participation.

DEADLINES

All assignments and the exam must be turned in on time. Assignments and exams turned in after the deadline will be penalized by 10% of assigned points for each 24 hours (or portion thereof) delay in submission. Those turned in after the delivery of the answer key will receive no credit. Any re-grade requests must be made *in writing* with a clear argument for additional credit. The whole work will be re-graded.

CLASS PARTICIPATION

Your class participation will represent 10% of your grade. Participating in class allows you to practice critical thinking and listening skills while developing the ability to balance advocacy for your own ideas with inquiry into the ideas of others. Use the discussion to expand your understanding of different perspectives. To receive a full credit for participation, I expect you to listen actively and respectfully to your colleagues' comments. I may "cold call" to ensure you have been listening, and I expect you to be ready to discuss both class content and the comments of your colleagues. Whenever possible, I expect you to build upon or help to clarify other students' insights. Your contributions should demonstrate both your own ideas and your ability to analyze those of your colleagues. Side discussions, excessive late arrivals, and other interruptions are disrespectful to the class and will detract from your class participation grade.

CASES

The cases have been selected to highlight, in an applied setting, specific tools important to international finance. Actually completing the case analyses is crucial for understanding the major elements of the course. Each individual is expected to be prepared to discuss the analysis; I may occasionally cold call for discussion. Class discussion will review the quantitative analysis as necessary and bring together many qualitative aspects of the case related to material covered in this and other courses.

HONOR CODE

The Rice University Honor Code applies to all work in this course. Specific violations of the Honor Code include, but are in no way limited to, the following: 1) Reference to or possession of any previous exercises, cases, or exams from MGMT 657 or MGMT 957. 2) Copying another group's work, exercise, or case write-up. 3) Giving or receiving help on the exam. If you are ever uncertain about what may or may not constitute a violation, please ask me.

DISABILITY ACCOMMODATIONS

Any student with a documented disability needing academic adjustments or accommodations is requested to speak with me during the first two weeks of class. All discussions will remain as confidential as possible. Students with disabilities will need to also contact Disability Support Services in the Ley Student Center.

OFFICE HOURS & CONTACT INFORMATION

Open door policy. By appointment or drop in, any time.

McNair Hall, Room 325

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The course covers the following broad areas headed by A-D. Each broad area consists of three topics, to each of which we will devote a half session. Required readings are shown in bullets.

Time and Venue: Wednesday 6:15-9:30pm, Room 318.

- 1 Mar 19 **A. Introduction to Basic Concepts, International Parity Conditions**
A1. Introduction to International Financial Markets
 - *Butler, Chapters 1 & 3*A2. International Parity Conditions
 - *Butler, Chapters 4*
 - *The Economist*, “The Big Mac Index—Sizzling”**Assignment #1: FX Exercise (Due Mar 26)**

- 2 Mar 26 A3. Deviations from Parity Conditions
 - *Butler, Chapter 4 – continued*
B. Currency Derivative Securities and FX Risk Management
B1. Currency Futures and Futures Markets, Dozier Case A
 - *Butler, Chapter 5*
 - Case, Dozier Industries, Part A

- 3 Apr 2 B2. Currency Options and Options Markets
 - *Butler, Chapter 6*B3. Dozier Case B, Advanced Hedging Strategies
 - Case, Dozier Industries, Part B
 - *Figlewski et al. (1990), Section 7.5 by Stapleton and Thanassoulas***Assignment #2: Dozier Industries Case (Due Apr 9)**

- 4 Apr 9 **C. Cross-border Capital Budgeting and Joint Venture**
C1. Cross-border Capital Budgeting
 - *Butler Chapter 14*C2. Joint Venture
 - Case: “Beijing International Club Corporation (BICC)”**Assignment #3: Cross-border Capital Budgeting Exercise (Due Apr 16)**

- 5 Apr 16 C3. Adjusted Present Value (APV) Approach to International Project Valuation
 - *Eun & Resnick, Chapter 18*
D. Risk and Return in International Markets
D1. International Risk & Return
 - *Butler, Chapter 20***Assignment #4: International Risk and Return Exercise (Due Apr 23)**

- 6 Apr 23 D2. International Investment Strategies: Value, Momentum
 - *Butler, Chapter 21*D3. Topics in asset pricing, unfinished business, and review

Final Exam: Take home, due April 28, midnight (before Apr 29) in hardcopy at Room 103. After office hours, you may slip your exam into the room beneath the entrance door.

Disclaimer: There is *not* a one-to-one correspondence between the textbook materials and the lecture material.

COURSE MATERIALS LIST

Below is the list of course packet materials. Materials not designated as required in the course schedule or not so instructed in class are optional. However, I may occasionally refer to them in class.

FX Markets and Parity Conditions

1. (Chart) International Parity Conditions
2. (Article) “The Big Mac Index—Sizzling” *The Economist*, 7/5/2007.
3. (Article) “Hong Kong Stocks Jump,” *The Wall Street Journal*, 8/25/2004, Page C16, by Ruby Chan.

Currency Derivative Securities and Risk Management

4. (Case) Dozier Industries Case A, Darden case UVA-F-0745
5. (Case) Dozier Industries Case B, Darden case UVA-F-0746
6. (Book chapter) Chapter 7, “Foreign Exchange Options,” pp.281-313 from Figlewski, Stephen, William L. Silber, and Marti G. Subrahmanyam, ed., 1990, *Financial Options: From Theory to Practice* (ISBN: 1-55623-872-X), Irwin.

Cross-border Capital Budgeting and Joint Venture

7. (Case) “Beijing International Club Corporation (BICC),” Thunderbird Case #A06-03-0009.
8. (Book chapter) Chapter 18, “International Capital Budgeting,” pp.449-466 from Eun, Cheol S., and Bruce G. Resnick, 2007, *International Financial Management*, 4th ed. (ISBN-13: 978-0-07-299686-9), McGraw-Hill.
9. (Article) “Interview: ExxonMobil Weighs Australian Investment Plans,” *Dow Jones Newswires* (available on WSJ online), 7/19/2004, by Eric Johnston.

Risk and Return in International Markets

10. (Article) “Markets Fear U.S. Woes Will Hit Global Growth,” *The Wall Street Journal*, 8/19/2007 Page A1, by Joanna Slater, John Lyons, Patrick Barta, and Ann Davis.
11. (Article) “European Markets Continue Their Strong Run,” *The Wall Street Journal*, 7/1/2005 Page C11, by Michael Sesit and Mary Kissel.
12. (Article) “U.S. Investors Place Record Bets on Markets in Europe and Asia,” *The Wall Street Journal*, 8/4/2004, Page A1, by Craig Karmin.
13. (Article) “Why Overseas Stock Funds Are Back in Favor,” *The Wall Street Journal*, 9/10/2004, Page C1, by Ian McDonald.
14. (Article) “Dollar to Rally—Or Retreat,” *The Wall Street Journal*, 7/29/2004, Page C14, by Michael R. Sesit.
15. (Article) “Is Your Foreign Fund Hedged or Unhedged?,” *The Wall Street Journal*, 11/19/2004 Page C1, by Karen Damato and Craig Karmin.
16. (Paper) Rouwenhorst, K. Geert, 1998, “International Momentum Strategies,” *Journal of Finance*, 53 (1), 267-284.

Additional Topics in FX Risk Management

17. (Article) “Japanese Firms Practice ‘Yen’ Damage Control,” *The Wall Street Journal*, 9/26/2003, Page A7.