

## INTERNATIONAL FINANCE Syllabus



**MGMT 957  
FALL TERM II, 2007**

### **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**

#### **Textbook**

- Butler, Kirt C., 2004, *Multinational Finance*, 3<sup>rd</sup> ed., Thomson South-Western.
- Eiteman, David K., Arthur I. Stonehill, and Michael H. Moffett, 2007, *Multinational Business Finance*, 11<sup>th</sup> ed., Addison-Wesley.

#### **Course Binder**

A binder of cases and articles will be provided.

#### **Lecture Notes**

Lecture notes will be posted on OwlSpace by Wednesday preceding each session. Although they will generally be distributed in class, reading them in advance will best prepare you for class discussions.

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

## ASSIGNMENTS

These assignments are completed in groups of no more than three (3) students. Each assignment is due at 8:00am on respective Friday (see the schedule) with Josh DeMott at the EMBA office.

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.

## GRADES

Class performance is assessed on the basis of the exercises, an 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 & Return exercise (groups)	10%
Final exam (individual, take-home)	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.

## DEADLINES

All assignments and the exam must be turned in on time. In extreme circumstances, I will entertain requests for extension of deadlines. However, these requests must be received in advance and in writing, and will be approved on a case-by-case basis. My decision regarding the proposed extension will be based primarily on my assessment of the impact on and fairness to your colleagues. Assignments and exams turned in after the deadline without prior approval will be penalized by 10% of assigned points for each 24 hours (or portion thereof) delay in submission.

## 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.

## **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 957 or MGMT 657. 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 drop in, appointment, or email.

McNair Hall, Room 325

713-348-4168

[watanabe@rice.edu](mailto:watanabe@rice.edu)

<http://www.ruf.rice.edu/~watanabe/>

The sessions cover the following concepts with corresponding required readings in parentheses.  
Please *check OwlSpace* on Wednesday preceding each session for possible announcements.

**Room 214**

**Session 1 (Oct 19, 2-6pm) FX Markets and Parity Conditions**

- International Financial Markets (*Butler*, Sections 3.1, 3.2, 4.1-4.3, 4.5)
- International Parity Conditions (*Butler*, Sections 5.1-5.4)
- Deviation from PPP (*The Economist*, “The Big Mac Index—Sizzling”)

**Session 2 (Nov 3, 8am-12) Currency Derivative Securities and Risk Management**

- Currency Futures and Options (*Butler*, Sections 6.2-6.4, 7.1-7.4)
- Case (Dozier Industries, Parts A and B)

**Assignment 1 (FX exercise) due: 8:00am, Friday, Nov 2**

**Session 3 (Nov 17, 2-6pm) Cross-border Capital Budgeting and Joint Venture**

- Multinational Capital Budgeting (*Eiteman et al.* Chapter 18)
- Case (Beijing International Club Corporation (BICC))

**Assignment 2 (Dozier Industries case) due: 8:00am, Friday, Nov 16**

**Session 4 (Nov 30, 8am-12) Cross-border Capital Budgeting, Part II**

- Adjusted Present Value approach (*Eun & Resnick*, Chapter 18)
- International Risk and Return (*Butler*, Sections 20.1, 20.2)

**Assignment 3 (Cross-border Cap. Budgeting exercise) due: 8:00am, Friday, Nov 30**

**Session 5 (Dec 14, 2-6pm) Risk and Return in International Markets**

*Note: the first half of this int'l investments session will be taught by Professor Barbara Ostdiek.*

- International Risk and Return—cont'd
- International Investments (*Butler*, Sections 21.1, 21.2, pp.573-579 “The International Value Premium” “Momentum Strategies”)
- Review

**Assignment 4 (International Risk and Return exercise) due: 8:00am, Friday, Dec 14**

**Final exam due: 2:00pm on the official due date (TBA) at Josh DeMott, EMBA Office**

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

## COURSE MATERIALS LIST

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

### Session 1: FX Markets and Parity Conditions

1. “The Big Mac Index—Sizzling” *The Economist*, 7/5/2007. Note: “Correction: Big Mac Index” *The Economist*, 7/19/2007.
2. “Hong Kong Stocks Jump,” *The Wall Street Journal*, 8/25/2004, Page C16, by Ruby Chan.

### Session 2: Currency Derivative Securities and Risk Management

3. Dozier Industries Case A, Darden case UVA-F-0745
4. Dozier Industries Case B, Darden case UVA-F-0746
5. *Eiteman, Stonehill & Moffett* (2007), Chapter 8, “Transaction Exposure”

### Session 3: Cross-border Capital Budgeting and Joint Venture

6. *Eiteman, Stonehill & Moffett* (2007), 11<sup>th</sup> ed., Chapter 18, “Multinational Capital Budgeting,” pp.580-613.
7. “Beijing International Club Corporation (BICC),” Thunderbird Case #A06-03-0009.

### Session 4: Cross-border Capital Budgeting, Part II

8. *Eun & Resnick* (2007), Chapter 18, “International Capital Budgeting”
9. “Interview: ExxonMobil Weighs Australian Investment Plans,” *Dow Jones Newswires* (WSJ online), 7/19/2004, by Eric Johnston.

### Session 5: Risk and Return in International Markets

10. “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. “European Markets Continue Their Strong Run,” *The Wall Street Journal*, 7/1/2005 Page C11, by Michael Sesit and Mary Kissel.
12. “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. “Why Overseas Stock Funds Are Back in Favor,” *The Wall Street Journal*, 9/10/2004, Page C1, by Ian McDonald.
14. “Dollar to Rally—Or Retreat,” *The Wall Street Journal*, 7/29/2004, Page C14, by Michael R. Sesit.
15. “Is Your Foreign Fund Hedged or Unhedged?,” *The Wall Street Journal*, 11/19/2004 Page C1, by Karen Damato and Craig Karmin.
16. Rouwenhorst, K. Geert, 1998, “International Momentum Strategies,” *Journal of Finance*, 53 (1), 267-284.
17. “Japanese Firms Practice ‘Yen’ Damage Control,” *The Wall Street Journal*, 9/26/2003, Page A7.