INTERNATIONAL CORPORATE FINANCE
Course Outline

Faculty: Economics
Year: 2012/13
Course name: International Corporate Finance
Level: Bachelor, 4 year
Language of instruction: English
Period: Module 2
Workload: 36 hours

Extended course name: International Corporate Finance
Short name: ICF

Course Teacher and Contact Details:
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Course Description

This course is a corporate finance course of a basic level. The key goal is to provide the student with sufficient knowledge to understand the logic of the modern financial analysis of strategic decisions in *multinational corporations* including investment and financing policies. The course is focused on the specific features of decision-making process in multinational corporations. The first part of the course constitutes the introduction to the analysis of operating, sovereign and institutional risks of multinational corporation. The second part of the course reviews specific tools and techniques applicable to the investment valuation of multinational company. The third part is devoted to the diversity of instruments available for emerging market company in global capital markets. Every lecture in this course is followed up with the in-class case studies. The course includes 4 case studies on (1) risks of multinational corporation; (2) global asset pricing models; (3) investment valuation in multinational corporation; (4) raising capital in global capital markets. To follow the course Basic course in Accounting is a recommended *prerequisite*.
The course covers such topics as types of risks of multinational corporation; currency risk in international projects; global asset pricing models; specific features of investment valuation for international projects; capital structure with the focus on particularities of raising capital in global capital markets.

Course Objectives

After the course student will know:

– main features of multinational companies and explain why we should pay attention to international character of the company;
– key hedging techniques applicable to currency risk of international project;
– how and when to use derivatives as currency risk hedging instrument;
– the logic and the mechanism of raising the capital by multinational companies;

After the course student will be able to:

- Classify the risks of multinational corporation;
- Evaluate the currency risk exposure;
- Apply key asset pricing models to multinational companies;
- Describe the process of raising the capital by multinational companies and analyze different instruments of capital markets available for multinational companies;
- Take into account the international character of the business while making equity valuation;

- Value the potential investment projects of the multinational company;

Teaching methods

The following methods and forms of study are used in the course:

- Lectures (2 hours a week on average)
- Classes (2 hours a week on average, in-class case studies, work in small teams, presentations, discussion)
- Home reading (mostly supplementary)
- Self-study
- Exam assignment

Reading Material

There is no single textbook for the course. The most valuable books for the course are those by Butler (1) and by Eun & Resnick (2).
Reading material consists of 3 key books and a number of articles from top finance journals (the list will be provided at the first class).

Main readings:

1. Butler K.C. Multinational Finance. John Wiley & Sons, 4th Edition, 2008.
2. Eun, C., Resnick, B. & Sabherwal, S. International Finance. Global Edition. Irwin/McGraw-Hill. 6th edition, 2012.
3. Damodaran, Aswath. Investment Valuation: Tools and Techniques for Determining the Value of Any Asset. Wiley, 3rd Edition, 2012.
4. Berk, DeMarzo, Harford. Fundamentals of Corporate Finance. Global Edition. 2nd Edition. Pearson Education Limited, 2012.
5. Quiry, Le Fur, Salvi, Dallochio, Vernimmen. Corporate Finance: Theory and Practice. 3rd edition. Wiley Desktop Editions. 2011.

Supplementary readings:

1. Eiteman D., Stonehill A., Moffett M. Multinational Business Finance. 12th ed., 2009.
2. Estrada, J. (2000). The Cost of Equity in Emerging Markets: A Downside Risk Approach. Emerging Markets Quarterly, (Fall), 19-30.
3. Estrada, J. (2002). Systematic Risk in Emerging Markets: The D-CAPM. Emerging Markets Review, 3 (4), 365-379.
4. Godfrey, S., & Espinosa, R. (1996). A Practical Approach to Calculating Costs of Equity for Investments in Emerging Markets. Journal of Applied Corporate Finance, 9(3), 80-89.
5. Huyghebaert, Nancy and Van Hulle, Cynthia, Structuring the IPO: Empirical Evidence on the Portions of Primary and Secondary Shares (2006). Journal of Corporate Finance, Vol. 12, Issue 2, p. 296-320.
6. Jain Bharat A. & Kini Omesh. (1994). The Post-Issue Operating Performance of IPO Firms. The Journal of Finance, Vol. XLIX (5), 1699 – 1726.
7. Kim, W. and Weisbach, M. (2008). Motivations for public equity offers: An international perspective // Journal of Financial Economics, 87 (2), pp. 281-307.
8. O'Brien, T. J. (1999). The Global CAPM and a Firm's Cost of Capital in Different Currencies. Journal of Applied Corporate Finance, 12: 73–79.
9. Pagano, Panetta & and Zingales, 1998. Why Do Companies Go Public? An Empirical Analysis, Journal of Finance, 53(1), 27-64.
10. Stulz, R. M., ‘A model of international asset pricing,’ Journal of Financial Economics, Vol. 9, 1981, pp. 383–406.

11. Stulz, R.M. (1999). International portfolio flows and security markets. In: Feldstein, M. (Ed.), International Capital Flows. National Bureau of Economic Research.
12. (In Russian). Ivashkovskaya, I., Ponomareva, O. (2008) Empirical analysis of IPO motivation and operational efficiency in CIS countries, Electronic Journal of Corporate Finance, 4(8), pp. 5-22.

Grading

Your grade will be based on home assignments based on team work (case studies (60%)) and final exam assignment (40%). You should work together in teams of 3-4 on your cases, and should hand in a joint solution with all of your names on it.
There are 4 in-class case studies and 1 discussion. Each result of best 4 of the grades accounts for 15% (60% totally). So, it is possible to fail on 1 of in-class case studies or discussion.

Course Outline

Class 1-2. Introduction to International Corporate Finance. Risks of multinational corporation.

What is multinational corporation? Key features. International operations of corporation. Corporation in global capital markets. Life cycle and decision-making process in multinational corporation. Risks of multinational corporation. Operating risks: pre-completion and post-completion risks for international project. Sovereign and institutional risks: macroeconomic risks and types of expropriation. Force majeure and World market risk. Adjustments for different types of risks.
In-class case study. Identifying the risks of US corporation entering an international project in Venezuela.

Main readings:
Butler K.C. Multinational Finance. John Wiley & Sons, 4th Edition, 2008.
Eun, C., Resnick, B. & Sabherwal, S. International Finance. Global Edition. Irwin/McGraw-Hill. 6th edition, 2012.

Class 3-4. Currency risks of multinational corporation.

Types of currency risk. Transaction exposure. Economic (operating) exposure. Translation (accounting) exposure. Sources of transaction exposure: operating cash flows in foreign currencies; financing cash flows in foreign currencies. Hedging strategies: to hedge or no to hedge. Forward market hedge. Money market hedge. Option market hedge. Boeing Illustration. Some words on Operational techniques.
In-class case study. Evaluating the currency risk exposure of Japanese business of US corporation.

Main readings:
Butler K.C. Multinational Finance. John Wiley & Sons, 4th Edition, 2008.
Eun, C., Resnick, B. & Sabherwal, S. International Finance. Global Edition. Irwin/McGraw-Hill. 6th edition, 2012.

Class 5-6. Required return of multinational corporation. Cost of capital for international projects.

Cost of capital: approaches applicable for multinational corporation. Integrated and segmented markets. Market segmentation factors. Instruments lessening the negative effects of segmented capital markets. Asset pricing models for multinational corporation. Contribution of Global, National & Industry Factors to the cost of equity. Emerging markets' efficiency. Cost of equity valuation methods: classification based on transparency and market integration level. Local CAPM. Rene Stulz 1981 IAPM. Global CAPM: O'Brien, Stulz et al. (1999). GCAPM:

limitations. Disadvantages of basic asset pricing models. Godfrey – Espinosa Model (1996). DCAPM (2000) by Estrada. Cumulative method for return estimation. Cost of Debt of multinational corporation. Costs of Debt across Countries.
Discussion. Identifying the required return on equity in emerging market firm.

Main readings:
Harvey, C. (2001). The International Cost of Capital and Risk Calculator (Working Paper). Durham, PA: Duke University.
Butler K.C. Multinational Finance. John Wiley & Sons, 4th Edition, 2008.
Damodaran, Aswath. Investment Valuation: Tools and Techniques for Determining the Value of Any Asset. Wiley, 3rd Edition, 2012.

Supplementary readings:
Estrada, J. (2000). The Cost of Equity in Emerging Markets: A Downside Risk Approach. Emerging Markets Quarterly, (Fall), 19-30.
Estrada, J. (2002). Systematic Risk in Emerging Markets: The D-CAPM. Emerging Markets Review, 3 (4), 365-379.
Godfrey, S., & Espinosa, R. (1996). A Practical Approach to Calculating Costs of Equity for Investments in Emerging Markets. Journal of Applied Corporate Finance, 9(3), 80-89.
O'Brien, T. J. (1999). The Global CAPM and a Firm's Cost of Capital in Different Currencies. Journal of Applied Corporate Finance, 12: 73–79.
Stulz, R. M., 'A model of international asset pricing,' Journal of Financial Economics, Vol. 9, 1981, pp. 383–406.
Stulz, R.M. (1999). International portfolio flows and security markets. In: Feldstein, M. (Ed.), International Capital Flows. National Bureau of Economic Research.

Class 7. Multinational Corporation in Global Capital Markets 1: Capital structure and Debt Capital Markets
Optimal Capital Structure for multinational corporation. Going below min WACC: theory. Tradeoff amendments for multinational corporation: Availability of capital, Diversification of cash flows, Foreign exchange risk, Expectations of international portfolio investors. Value of multinationality. When and how to go to international capital markets. Money vs. capital markets: lifecycle reasoning. Multinational corporation in international debt capital markets. Types of corporate debt financing instruments. Cost of debt depending on debt instrument. Direct vs. Intermediated debt. Bank loans and syndicated credits. Bonds with embedded options. Domestic vs. Eurobond. Financial and informational covenants. Russian companies in global debt capital markets: statistics, strategy and barriers.
In-class case study. Developing the financing strategy for a Russian bank with a listed Eurobond.

Main readings:
Butler K.C. Multinational Finance. John Wiley & Sons, 4th Edition, 2008.
Berk, DeMarzo, Harford. Fundamentals of Corporate Finance. Global Edition. 2nd Edition. Pearson Education Limited, 2012.
Quiry, Le Fur, Salvi, Dallochio, Vernimmen. Corporate Finance: Theory and Practice. 3rd edition. Wiley Desktop Editions. 2011.

Supplementary reading:
Eiteman D., Stonehill A., Moffett M. Multinational Business Finance. 12th ed., 2009. Chapters 11-16.

Class 8. Multinational Corporation in Global Capital Markets 2: Equity Capital Markets.

Motivations for Public Equity Offers. Public offerings: lifecycle reasoning. IPO motives: financing investments, transferring wealth from new shareholders to existing shareholders, increasing liquidity. Growth companies strategy for public offerings. Secondary shares public offering as a strategic step for stable companies. Some Evidence on Company's post-IPO results. Designing a Strategy to Source Equity Globally. Scheme of Alternative Paths for a company in global capital markets. Foreign Equity Listing and Issuance. Alternative Instruments to Source Equity in Global Markets.
In-class case study. Developing the public offering strategy for a Russian public company with no international listing.

Main readings:
Butler K.C. Multinational Finance. John Wiley & Sons, 4th Edition, 2008.

Supplementary readings:
Eiteman D., Stonehill A., Moffett M. Multinational Business Finance. 12th ed., 2009. Chapter 12.
Kim, W. and Weisbach, M. (2008). Motivations for public equity offers: An international perspective // Journal of Financial Economics, 87 (2), pp. 281-307.
Huyghebaert, Nancy and Van Hulle, Cynthia, Structuring the IPO: Empirical Evidence on the Portions of Primary and Secondary Shares (2006). Journal of Corporate Finance, Vol. 12, Issue 2, p. 296-320.
Pagano, Panetta & and Zingales, 1998. Why Do Companies Go Public? An Empirical Analysis, Journal of Finance, 53(1), 27-64.
Jain Bharat A. & Kini Omesh. (1994). The Post-Issue Operating Performance of IPO Firms. The Journal of Finance, Vol. XLIX (5), 1699 – 1726.
(In Russian). Ivashkovskaya, I., Ponomareva, O. (2008) Empirical analysis of IPO motivation and operational efficiency in CIS countries, Electronic Journal of Corporate Finance, 4(8), pp. 5-22.

Class 9. International Projects: some valuation issues.
Logical Value Creation Roadmap for International project. Choice of Real or Nominal cash flows for valuation purpose. Valuation in countries with hyperinflation environment. Discounting foreign cash flows converted to home currency. Discounting foreign cash flows with converted cost of capital. APV and WACC methodology for international projects: Theoretical view. Accounting for standard and non-standard risks. Currency beta. Currency risk influencing cost of equity in segmented markets. Country Risk Adjustments. Scenario analysis. Incorporating political, liquidity & familiarity risks. Country risk adjustment: Goldman model. What to do if spreads in USD are not available.
Case study. Investment valuation of US corporation investing to Pakistan project.

Main readings:
Butler K.C. Multinational Finance. John Wiley & Sons, 4th Edition, 2008.
Damodaran, Aswath. Investment Valuation: Tools and Techniques for Determining the Value of Any Asset. Wiley, 3rd Edition, 2012.
Quiry, Le Fur, Salvi, Dallochio, Vernimmen. Corporate Finance: Theory and Practice. 3rd edition. Wiley Desktop Editions. 2011.

Time allocation

Topic	Contact hours		Self-study
	Lectures	Seminars	
Class 1-2. Introduction to International Corporate Finance. Risks of multinational corporation	4	4	16

Topic	Contact hours		Self-study
	Lectures	Seminars	
Class 3-4. Currency risks of multinational corporation	4	4	16
Class 5-6. Required return of multinational corporation. Cost of capital for international projects	4	4	16
Class 7. Multinational Corporation in Global Capital Markets 1: Capital structure and Debt Capital Markets	2	2	8
Class 8. Multinational Corporation in Global Capital Markets 2: Equity Capital Markets	2	2	8
Class 9. International Projects: some valuation issues	4	0	8
Totally	20	16	72