

International Finance

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Course Description:

This course focuses on international financial management and international trade. Topics in financial management, viewed primarily from the perspective of managers doing business overseas, include the management of foreign exchange exposure, foreign direct investment decisions, and multinational capital budgeting. Other topics covered include trends in international banking, the balance of payments, the determination of exchange rates, the LDC debt crisis, and the Asian meltdown. We will also examine the challenges and problems faced by firms planning on doing business in Western Europe, Eastern Europe, the Far East, Mexico, Canada, South America, Africa, India, and other regions during the next decade.

Text: Madura, International Financial Management 8th , Ed. Thomson/Southwest 0324288417

Course Outline:

Class 1 - Overview

Reading assignment:

Chapter 1 Multinational Financial Management: An Overview

EU Expansion Reading set (14 pages)

Assignment (to be handed in):

1. Why isn't Britain in the EMU? Switzerland? Turkey?
2. Why did Poland join the EU?
3. What does an economically unified Europe mean to US firms?

Class 2 - International Trade Flows

Reading assignment:

Chapter 2 International Flow of Funds

Euro/\$ exchange rate and Changing Investment and trade patterns reading set (9 pages)

Assignment (not handed in):

1. What factors have been determining the Euro/\$ exchange rate in recent years?
2. What factors have been affecting European/US trade flows during the past decade?
3. How does "one" correct a balance of trade deficit?
4. Why is a weak currency a solution for a trade deficit? Why not?

5. How might one explain the increasing Direct Foreign Investment in new member EU states?
6. Does the US “trade” deficit matter?

Class 3 - How Foreign Exchange is Traded; International Money, Credit, Bond and Stock Markets

Reading assignment:

Chapter 3 International Financial Markets

Homework due in Class 3

1. Why would a foreign corporation want to issue an ADR in the US?
2. Why might two investors in different countries come to different conclusions about the value of an MNC for which they have information of equal quality (cash flows, etc.)?

Class 4 - Exchange Rate Determination

Reading assignment:

Chapter 4 Exchange Rate Determination

Prepared notes on Exchange Rate Determination

Homework to be turned in

Questions 2, 3, 4, and 10 on pages 112 -113 to be turned in.

Class 5 – Exchange Rate Policy and the Asian Currency Crisis

Reading assignment:

Chapter 6 and the Currency Crises reading set.

Homework to be turned in

Questions 4, 10 and 14 on pages 208-209 to be turned in.

Class 6 – Currency Derivatives

Reading assignment:

Chapter 5 Currency Derivatives

Homework to be turned in

Read the supplemental case (Capital Crystal – using futures and options) on page 652, and prepare the answers to be discussed in class and handed in.

Class 7 - Interest Rate Parity

Reading assignment:

Chapter 7 International Arbitrage and Interest Rate Parity

Homework to be turned in

Questions 4, 17, and 21 on pages 231-3

Class 8 - More Parity Conditions

Reading assignment:

Chapter 8 Relationships Among Inflation, Interest Rates, and Exchange Rates

Chapter 9 Forecasting Exchange Rates

Homework to be turned in

Questions 4, 17, and 21 on pages 231-3

Class 9 - Managing Transaction Exposure

Reading assignment:

Chapter 10 Measuring Exposure to Exchange Rate Fluctuations

Chapter 11 Managing Transaction Exposure

Homework to be turned in

Question 27 on pages 323-4

Class 10 - Managing Economic Exposure

Reading assignment:

Chapter 12 Managing Economic Exposure and Translation Exposure

Albion Computer Case

Class 11

Midterm Exam

Class 12

Reading assignment:

Chapter 13 Direct Foreign Investment

Class 13

Reading assignment:

Chapter 16 Country Risk Analysis

Cummins/KaMaz case

Assignment: Prepare to discuss the Cummins/KaMaz case

Class 14

Reading assignment:

Chapter 14 Multinational Capital Budgeting

Assignment: Prepare to discuss CB case

Class 15

Reading assignment:

Chapter 15 Multinational Restructuring

Chapter 17 Multinational Cost of Capital and Capital Structure

Class 16**Reading assignment:**

Chapter 18 Long-Term Financing

Assignment: Prepare problems from text**Class 17****Reading assignment:**

Chapter 20 Short-Term Financing

Assignment: Prepare problems from text**Class 18****Reading assignment:**

Chapter 19 Financing International Trade

Chapter 21 International Cash Management

Assignment: Prepare problems from text**Class 19****Reading assignment:****China reading set****India reading set****Class 20****Reading assignment:****Africa reading set****Russia and Eastern Europe reading set****Latin America Reading Set****Finals week**

Final Exam (Paper optional)

Course Procedure:

You are expected to read the assigned Reading assignment: Chapters and outside readings prior to the class where they are to be discussed. There will occasionally be optional outside readings. Mostly, these will be posted on a class web page or located at some other internet site, but occasionally they will be handed out in class.

There will be problems or cases (from out of the text) assigned for most classes. Many of the problems and cases will be designated to be handed in. Homeworks and cases may be prepared in groups of no more than four individuals. When work is to be handed in, it will be typed and due at the end of the class when the relevant Reading assignment: Chapter is covered. No late homework will be accepted. You may miss one homework assignment without penalty to your grade.

There will be two examinations, the first after about five weeks and the second in the assigned final examination time slot.

In place of taking the final exam, you may write a paper to be turned in by the end of the day when the final is scheduled. There will be no specially scheduled exams -- you either take both exams at the assigned time or write the paper. There will be **no exceptions** to this, so plan ahead.

Final grades will be determined as follows:

1. Each examination (or the paper) at 30%,
2. Homework and participation at 40%.

I. Paper Instructions:

Choose a U.S. firm and a country where that firm is not presently doing business. The firm should be one for which you can get the most recent annual report. Write an in-house proposal suggesting whether and how your firm should enter the market. For example, Intel might consider exporting some production capacity by opening up a production facility in the Ukraine. The paper would focus on why this is a good (bad) idea versus some other possibilities (See Reading assignment: Chapters 15, 16, and 18).

Focus on issues pertaining to finance (as covered in our text). You may also have to deal with issues pertaining to marketing, production, venture organization, etc. but don't get carried away in this direction. Obviously, such a paper will be harder to write for an emerging Eastern European or ex-soviet country than for, say France, but also possibly more interesting. I will take this into consideration when grading the papers. I will discuss the paper further and provide example papers for you to examine.

12/29/05