

**International Finance**  
**Consortium Institute of Management and Business Analysis**  
**Fall 2014**



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### **Course Description**

The course introduces the student to the problems and opportunities faced by firms which operate in an international environment, focusing on their financial aspects. A description of that environment, including the structure of foreign exchange markets, the development of new financial instruments, and the factors which affect exchange rates will lay the groundwork of the course. The effect of exchange risk on capital management, the investment decision, and the financing choices, form the bulk of the course. We will see how a firm can use the foreign exchange markets to manage this risk, and how it can organize its internal transactions to cope with changes in currency values.

### **Course Prerequisites and Expectations**

Introduction to Financial Management (course designation will differ from institution to institution).

This course is highly quantitative and analytical in nature and extensive use of mathematical (algebra) and statistical concepts will be required. Given the nature of this course, it is required that you keep up to date on your assignments for it will be hard to study for this course the night or even the week before the exam and still pass the class.

### **Course Goals and Objectives**

**Course Objective:** To give the student an operational knowledge of corporate finance within the international environment by combining theory and applications. Introduce the concepts International monetary systems, exchange rate determination, use of currency derivative in hedging and risk management, currency swaps, foreign direct investment, international corporate finance, international capital budgeting and international portfolio investment.

**Course Goal:** After completing this course, the student should be able to:

- Explain and evaluate how the globalization process moves a business from a purely domestic focus in its financial relationships and composition to one truly global in scope.
- Describe what three major corporate currency exposure arises from multinational business.
- Define and explain the terms that are used in reference to exchange rates and currency regimes in addition to analyzing the characteristics of an ideal currency.
- Explain how nations measure their own level of international economic activity and how that is measured by the balance of payments.
- Show how interest rates and inflation affect each country and currency.

- Identify the forms of currency quotations used by currency dealers, financial institutions, and agents of all kinds when conducting foreign exchange transactions.
- Distinguish between spot, forward, swaps, and other types of foreign exchange financial instruments as well as foreign currency futures and options contracts.
- Demonstrate how both the diversifiable and non-diversifiable risks of an investor's portfolio may be reduced through international diversification.
- Evaluate the various internal and external sources of funds available for the financing of foreign subsidiaries.

### **Textbook**

*Fundamentals of Multinational Finance*, Moffett, Stonehill and Eiteman, 4<sup>th</sup> Edition, Pearson-Addison Wesley, 2012. ISBN: 0-13-213807-7 or any prior version owned by CIMBA.

### **Recommended Supplements**

Wall Street Journal, Financial Times, BusinessWeek, The Economist, International Newspapers

### **Financial Calculator**

You may choose to obtain a financial calculator but a regular calculator will suffice in this course. Some of the financial calculators that are available are made by Texas Instruments and Hewlett-Packard. You must learn to use the calculator prior to the exams and must bring it to class every day.

### **Course Procedure**

The structure of this class makes your individual study and preparation extremely important. The lectures will focus on the major points introduced in the text. If you read and have at least some familiarity with the assigned chapter before the lecture, this will greatly enhance the learning experience. The lecture will focus on the more difficult aspects of each chapter and on problems which deal with the material. If you have not read the chapter and don't understand the definitions and simple concepts, you will not be able to grasp the more complex topics covered in the lecture. After the lecture, you should review your notes and in the process work relevant problems and questions at the end of the chapter. The more problems you work out the better you will do in this class.

The instructor will lecture and lead class discussions. Students are expected to prepare for each class and participate. Students have the primary responsibility for their learning. The instructor's role is to help students learn by leading the learning process.

### **Class Attendance and Grading**

**Class Attendance:** Attendance at all classes and CIMBA sanctioned activities is mandatory. All unexcused absences will have the following consequences:

1. First absence will result in a loss of ½ of a letter grade for the course (e.g. B+ to B-, B to C+)
2. Second absence (cumulative) will result in a loss of a full letter grade for the course (e.g. B+ to C+)
3. Third absence (cumulative) will result in a dismissal from the program.

Absences due to illness require a note from the CIMBA Undergraduate Office Staff and/or the Istituto Filippin medical staff. If a student is sick and cannot attend class, he/she must inform the CIMBA Staff immediately. Failure to do so will result in an unexcused absence.

**Grading:** Course grades will be approximately distributed according to the recommended guidelines of the Economics Department at the University of Iowa; that is, 30% A's, 40% B's, 25% C's and 5% D's. These are only guidelines. Actual Distribution will depend on specific class performance. You may refer to <http://tippie.uiowa.edu/undergraduate/advising/grading-policies.cfm> for more on this.

Your performance in this class will be determined by your total performance on all the assignments. Please see the Assignment section below. The following scale will be used to determine the final grades:

A+ = 98-100	B+ = 86-89	C+ = 76-79	D+ = 66-69	F = 0-59
A = 94-97	B = 83-85	C = 73-75	D = 63-65	
A- = 90-93	B- = 80-82	C- = 70-72	D- = 60-62	

**Curve:** I curve each exam grade up to and including a 70 (or C). My policy on curving is the following: If the class average for a particular exam is below a 70, I give everyone in class, no matter what grade he/she gets, equal number of points in order to make the average a 70. For example, if the class average (including the points for participation) is a 65 I add 5 points to everyone's score in order to make the average a 70. The curve will not be added directly to your grade. I will create a new column where the numbers of points to be added to your score will reside. I will add the points to the exam grade at the end of the semester.

If I feel the class is not doing its best as a whole, I reserve myself the right to not grant a curve for a specific test.

### **Assignments**

**In class Exams (75 percent of grade):** There will be two mid-term examinations (non-cumulative), each worth 20 percent of your grade, and a final exam (cumulative) worth 35 percent. Exams will be closed-book and closed-notes. Students must bring a calculator, as long as it is not programmable and does not store text. You may not use your cell phone, tablet, computer or palm pilot as a calculator. Each exam will consist of essay/problem solving questions; there are no multiple-choice questions on the exams. You are required to bring a calculator to the exams. Please note that calculator apps in your cell phones or other mobile devices are not allowed. You may bring a one-page cheat sheet to each exam. Limit one letter- or A4-size page, one side. These may only include definitions and/or formulas. Please put your name on the cheat sheet and hand it in with the exam. If you include more information than allowed in this cheat sheet you will receive a zero (0) in the exam.

The dates for the in class exams are as follows:

Midterm Exam 1:	Class after Chapter 4 is covered
Midterm Exam 2:	Class after Chapter 8 is covered
Cumulative Final Exam:	CIMBA designated (TBD)

In order to be successful in this class and do well in the exams you will need to be able to analyze problems, rather than memorizing facts. Approximately 70-75% of material covered on course exams relates directly to material covered in class sessions. The remaining 25-30% of exam material is drawn from specific readings and problems assigned (but don't cover extensively in class).

If you miss an exam due to illness you must make it up the day are able to return to classes. If this is not possible then you have until the day after you are able to return to classes as specified by the doctor or CIMBA representatives. If it is determined that you have copied in an exam you will receive a zero (0) in the exam. Receiving an F in the course is also a possibility based on the severity of the offense. Any misconduct will be reported to the CIMBA Undergraduate Office and the Associate Dean of the Tippie College of Business.

***Integrated Cases (25 percent of grade):*** Throughout the semester you will have to work on three "Integrated Cases" found at the end of chapter 3, chapter 7, and chapter 10. You may work with another fellow student, but you must turn in your own assignment. Please include the name of the other student who participated at the top or cover page of the assignment. Typed submissions are preferred, written is acceptable if extremely legible. The cases will be due the class after we are done covering the specific chapter – I will remind the students about the assignments the class before they are due. For example, if we finish covering chapter 3 on October 6, 2014 the Integrate Case for this chapter will be due before class begins on October 8, 2014. No late assignments will be accepted. If you miss an assignment you will receive a zero. If you cannot submit an assignment due to illness you will have until the day after you are able to return to classes to submit the assignment. You must have a doctor's excuse or some sort of notice of illness.

Plagiarism is not allowed. Make sure that all the answers are written/answered using your own words. I will check for plagiarism and copying/collaboration from/with others. If caught plagiarizing or copying you will receive a 0 in the assignment. Plagiarism is defined as using another person's work without acknowledgment, making it appear to be one's own. Intentional and unintentional instances of plagiarism are considered instances of academic misconduct and are subject to disciplinary action such as failure on the assignment or failure of the course. If it is determined that you used any web resources, other than those required for the web exercises, or that you plagiarized you will receive a zero in the assignment and your conduct will be reported to the CIMBA Undergraduate Office and the Associate Dean of the Tippie College of Business.

### ***Class Participation - Extra Credit***

The first 15 minutes of each class will be dedicated to the discussion of current financial issues worldwide. For this purpose, you may choose a country/continent/industry/multinational corporation at the beginning of the semester and read an article pertaining to a particular financial situation in that country/continent/industry/multinational corporation every week. You will be required to give a brief verbal summary of what you read. I will add one point to the following exam every time you participate. Given the large number of students in this class each student will have the opportunity to present once a week. However I will not tell the student when he/she will be called. If you are called once during the week and you do not

present your article at that time, or you are absent, you will not be able to participate again until the following week.

**End of Chapter Assignments (0 percent of grade):** Assigned chapters must be prepared prior to the lecture date. Each student is responsible for assigned material and end-of-chapter problems found on Canvas under Course Content - Homework Assignments & Topics Covered in Class. Copies of the solution will be available on Canvas. Students are encouraged to discuss the chapters and assignments with each other. In case of any difficulty, please come see me during office hours or contact me via e-mail. Homework assignments will not be collected. It is up to you whether you want to do it or not. However, you should be aware that the more problems you do the better you will do in this class. It is up to the student whether homework problems are explained in class. I will only go over problems in class if the student asks me to solve a specific problem. I will not be going over problems when students have not attempted the problems themselves.

We will go over the homework problems at the beginning of each class if you have done your work and/or if you have questions. *Even though homework problems will not be collected or graded it is highly recommended that you complete them. These will help you better prepare for the exams given that similar questions/problems to those found at the end of the chapter may be found in the exams.*

### Course Outline

Chapter	Topics	Homework Problems
1 & 2	Globalization, Theory of Comparative Advantage, Limitations of Comparative Advantage, Rationale for the Existence of the Multinational Firm, International Finance, Goals of the Financial Manager, Exchange Rate Risk, Operational Goals and Agency Problem and Cost, Types of Corporations, Corporate Governance, Goals of Corporate Governance, Structure of Corporate Governance, Comparative Corporate Governance, Corporate Governance Reform	Recommended: All  Chapter 1 Suggested Problems: 7-9.  Chapter 2 Suggested Problems: 1, 3, 4, 6, 12, 13
3	Currency Terminology, International Monetary System, Currency Arrangements, European Monetary System, Foreign Exchange Market Intervention	Suggested Problems: 1-9
4	Balance of Payments, Balance of Payment Accounts, Accounting Convention, Balance of Payment Identity, Trade Deficit	Suggested Problems: 1, 2, 27
6	Foreign Exchange Markets, Market Participants, Decentralized Markets, Market Conventions, Market Transactions, Cross Rates, International Arbitrage	Suggested Problems: 1, 4, 6- 9, 11, 15, 16, 19, 20

7 & Appendix	International Parity Conditions, Purchasing Power Parity, Exchange Rate Pass-Through, Interest Rate Parity, Covered Interest Arbitrage, International Fisher Effect	Suggested Problems: 1-5, 7, 11, 12, 17, 18, 20
8	Contractual contracts, Futures vs. Forward Contracts, Options Contracts, Options Markets, Types of Options, Option Specification, Option Characteristics, Options Strategies, Speculation	Suggested Problems: 2, 4, 5, 6, 9, 10, 18
10	Exposure – Transaction and Translation, Hedging, Hedging Decisions, Money Market, Forward and Options Hedge, Translation Methods, Hedging Translation Exposure	Suggested Problems: 2,6, 8, 9, 14, 17-20
11	Operating Exposure, Operating vs. Financial Cash Flows, Measuring Operating Exposure, Managing Operating Exposure, Effects of Exchange Rate Changes on Operating Income, More on Strategic Response, Transaction vs. Operating Exposure	Suggested Problems: 1, 2, 4, 9
12	Market Liquidity, Market Segmentation, Cost of Capital, Components Cost of Capital, Weighted Average Cost of Capital (WACC) for Domestic Firms and MNEs, Weighted Average Cost of Capital for Foreign Projects, Cost of Capital for MNEs Compared to Domestic Firms	Suggested Problems: 1-3, 5, 9
13	Foreign Currency Debt Financing, Financial Structure of Subsidiaries, Advantages and Disadvantages of Localization, Internal vs. External Financing of a Subsidiary, Short-Term to Medium-Term Debt Financing, Long-Term Debt Financing	Suggested Problems: 7-10, 13
16	Cost of Capital at the Domestic Level, Cost of Capital at the International Level, Cost of Equity, International Equity Markets, Weighted Average Cost of Capital, All Equity Cost of Capital	Suggested Problems: 1, 2

### **Structural Policies**

Virtually everything that concerns the structural mechanics of this class, including among other things course credit, dropping and adding, and academic misconduct is governed by the Tippie College of Business, University of Iowa. Specific structural policies in that regard include:

***Accommodating Disabilities:*** If you have a disability that may require some modification of seating, testing, or any class requirement, please let me know as soon as possible so that appropriate arrangements can be made. Similarly, if you have any emergency medical information that I should be aware of, or if you need special arrangements in the event of the

building being evacuated, please let me know. Please see me after or outside of class to discuss these issues.

***Academic Misconduct:*** Students may work with other students, share information, etc. on all assignments except for exams. Plagiarism, cheating, unauthorized collaboration and other areas are covered by the Honor Code. If expectations about attendance and performance are violated, or if students commit academic misconduct, the CIMBA office policies prevail. CIMBA has an Honor Code in the College and they are bound by this Code even if they are not Tippie College of Business students. Tippie College Undergraduate Honor Code can be found at: <http://tippie.uiowa.edu/undergraduate/honorcode/>. It covers information about cheating, plagiarism, unauthorized collaboration, obtaining an unfair advantage, forgery, facilitation of academic dishonesty and misrepresentation, as well as its consequences.

It is my sincere hope that no student in this class submits work which is not his or her own. However, it seems prudent to clarify in advance the policy on cheating. If I determine that any assignment was not written solely by the student whose name appears on the assignment, the student will receive a zero (0) for the assignment and may receive an “F” for the class. All incidents of cheating will be reported to the CIMBA Undergraduate Office and the Associate Dean of the Tippie College of Business and the student may be placed on disciplinary probation for the remainder of the semester. In general, the decision of the professor may be appealed to the CIMBA Undergraduate Staff and/or the College of Business Judicial Board, then to the Associate Dean for the Undergraduate Program. The Honor Code for the Tippie College of Business will determine the appropriate process. The Honor Code is located on the University of Iowa website.

***Sexual Harassment:*** CIMBA, The Tippie College of Business and the University of Iowa are committed to providing students with an environment free from sexual harassment. If you feel that you are being or have been harassed or you are not sure what constitutes sexual harassment, we encourage you to visit the University of Iowa website:

<http://www.sexualharassment.uiowa.edu/index.php> to seek assistance from the department chairs, Dean’s Office, the University Ombudsmen Office, or the Equal Opportunity and Diversity Office ([ombudsperson@uiowa.edu](mailto:ombudsperson@uiowa.edu)).

***FERPA Requirement:*** To participate in this class, it may be necessary to reveal to other students the names of students who are enrolled in this course. If you do not want your name revealed to other students enrolled in this course, please contact me in writing by the end of the first week of class.

***Complaints/Grievance Policy:*** Student concerns regarding this course should first be discussed with me, the faculty member teaching this course. If we can’t resolve the complaint, you may contact the Economics Department Chair, John Solow (319-335-0845, [john-solow@uiowa.edu](mailto:john-solow@uiowa.edu)). If you cannot resolve the complaint by speaking with the chair, you may contact the Associate Dean of the Tippie College Undergraduate Program, Lon Moeller, at 319-335-0924, or by email at [lon-moeller@uiowa.edu](mailto:lon-moeller@uiowa.edu).

## **Other Policies**

**Open Door Policy:** Please feel free to set up an appointment if you have questions, or just would like to talk.

**E-mail Communication and Etiquette:** The best way to contact me outside of class and office hours is via email. You should view your e-mail as a professional business communication in which you are trying to impress the reader and not as a text message to one of your friends or classmates. In the interest of achieving this goal, emails sent to me must meet the following requirements: Emails must have “MBFM” in the subject line. Any form of communication is expected to include proper grammar, capitalization and punctuation. Lastly, emails must be signed with both your first and last names. Please be very specific as to your question, concern and/or comment.

## **Tips on how to Succeed in this Class**

1. Be attentive in class, take good detailed notes, participate in discussion, and read the chapters ahead of time. Don't work on other class material while you give partial attention to the class.
  - a. Make sure to turn off all electronic communication and game devices before class begins. If you want to send or receive messages, place or receive phone calls, play games or search the Internet, etc., do this outside of the classroom. Students who violate this policy distract me, degrade the classroom experience for other students, and will be asked to leave the classroom.
  - b. Read each chapter before you come to class. To make sure you understand the details, know the meaning and proper use of the key terms in the back of each chapter.
  - c. Pay special attention to all material emphasized in class, and especially the reasoning on the topics. Class material should not be considered difficult, but rather something new that needs to be understood before it can be learned.
2. Form an informal study group. Teach other in your study groups. Keep these groups small. Large groups tend to be more distracting.
3. Let me know of any questions you may have.
4. You are personally responsible for learning the material and doing well.
5. Make sure you complete all the assignments that are due before class as these are designed to speed your comprehension of the course material.