SYLLABUS (DRAFT)

IBUS6301, INTERNATIONAL BUSINESS FINANCE

FALL 2013

Professor: Hein Bogaard, Assistant Professor of International Business
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Office Hours: Mondays and Tuesdays 4:00 to 6:00 pm and by appointment

Course Description: This course provides an overview of the international financial environment within which multinational firms and financial institutions operate. It involves an analysis of the challenges firms face and the international financial management strategies to cope with these challenges. The course will cover three main topics – the transactions in the foreign exchange market; exchange rate risk and hedging strategies; and firm-related issues such as raising capital abroad, cost of capital for international projects and international capital budgeting. The course is quantitatively intensive.

Time and Location: Wednesdays, 7:10 – 9:40 pm, Funger 208

Prerequisites: MBAD 6234 (Financial Management). In addition students will be expected to have successfully completed MBAD 6241 (Global Perspectives).

Textbook & Cases: Course pack and cases can be purchased on www.study.net

Blackboard and additional readings: I will post lecture notes and (links to) additional materials during the semester. You should keep up with the news on international financial markets through the Economist, the Financial Times or the Wall Street Journal. Keeping up with current events will improve your performance on exams.

Learning Objectives: On completion of the course, students should

- Have an understanding of global capital markets and exchange rates
- Be able to analyze spot and derivative (forwards, futures, options and swaps) transactions in the foreign exchange market and fundamental parity conditions
- Be capable of identifying how firms can be exposed to exchange rate risk and compare and contrast the options for hedging this risk
- Know how to apply the principles of capital issuance and capital budgeting of financial decisions to an international context
- Be able to apply the above concepts to the decisions faced by any financial manager
**Course organization:** Classes include a mix of lectures, cases, article discussions and group activities. Lecture notes and relevant news reports will be posted on Blackboard ([www.blackboard.gwu.edu](http://www.blackboard.gwu.edu)) before class and you are encouraged to download or print them. You are expected to check the course website regularly before and after each class. Please bring a calculator to every class.

**Grading:** The final grades for this course will be based on a weighted averaged of the following exams and assignments:

<table>
<thead>
<tr>
<th>Exams/assignments</th>
<th>Date / Due date</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Quiz 1</td>
<td>September 11</td>
<td>10 %</td>
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<tr>
<td>Quiz 2</td>
<td>October 2</td>
<td>10 %</td>
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<tr>
<td>Quiz 3</td>
<td>November 6</td>
<td>10 %</td>
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<tr>
<td>Exam</td>
<td>October 16</td>
<td>40 %</td>
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<tr>
<td>Case 1 (team)</td>
<td>September 25*</td>
<td>10 %</td>
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<tr>
<td>Case 2 (team)</td>
<td>October 30*</td>
<td>10 %</td>
</tr>
<tr>
<td>Case 3 (team)</td>
<td>December 4*</td>
<td>10 %</td>
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* Case write-ups are due **before the beginning of class** on blackboard

**Exams and quizzes** The exams and quizzes are closed book, but it is recommended that you bring a calculator (you cannot use the one on your phone, iPad, et cetera!!). The exams consist of a combination of quantitative and conceptual questions. Class notes (including your own) are the guide to what you need to know for an exam. The readings provide alternative explanations for the concepts discussed in class and practice problems.

**Cases** Case write-ups are due on **September 25, October 30 and December 4**. Instructions for the write-ups can be found at the end of this syllabus. The cases are group work and groups will be formed on the second day of class. Case grades will be based on the quality of the write-ups and participation in the class discussion of the case.

**Participation** Students are expected to do the readings before class and to be ready to participate in class discussion. Students who prepare and participate will get more out of this class and a lack of preparation will hurt both you and your fellow students. It is good practice to let me know if you will be absent from a regular class, but you are expected to attend the classes in which we discuss the cases. There is no formal grade for participation, but I will weigh participation in decisions about the rounding of final grades.

**Absence / Late Assignments** Absence from an exam will lead to a score of zero unless a valid reason for absence has been established **before** the exam takes place. Late submissions of the case write-ups are not accepted.

**Disability services** Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office at 202-994-8250 in the Marvin Center, Suite 242, to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: [gwired.gwu.edu/dss/](http://gwired.gwu.edu/dss/)
Academic Integrity  Conduct and all work in this course must be in accordance with the GW Code of Academic Integrity. Academic dishonesty is defined as cheating of any kind, including misrepresenting one’s own work, taking credit for the work of others and the fabrication of information.

Any assignment submitted in violation of the GW Code of Academic Integrity (including but not limited to cases of plagiarism) will receive zero points. All violations of the code will be reported to the Office of Academic Integrity.

It is the student’s responsibility to be familiar with policies regarding academic integrity and plagiarism. If you are ever in doubt about whether something is, or is not permissible you should ask for clarification and/or take the safe option. Please visit the following website for more information: www.gwu.edu/~ntegrity/code.html

Office Hours I consider office hours a part of class. You should not hesitate to stop by to discuss class materials, cases, problem sets, exams, or just to say hello. You do not need an appointment during regular office hours, but if you cannot make these times due to work, conflicting classes or for any other reason, please do not hesitate to contact me to set up an appointment.

Syllabus This syllabus provides a broad outline of the course. The dates for exams and submission of cases and problem sets are firm. However, depending on the progress we make or on developments in international financial markets, I may make adjustments during the semester.
TENTATIVE SCHEDULE

Part 1: Foreign Exchange Market

Learning objectives

- Understand what exchange rates mean, how they are quoted and how exchange rates between various currencies are related.
- Understand what currency appreciations and depreciations are and how they are related to interest rate differentials (Interest Rate Parities) and the value of money (Purchasing Power Parity).
- Be familiar with derivative instruments in the foreign exchange market (futures, swaps, and options), their relationship to spot and forward rates and their role in exchange risk management.

Class 1, August 28: Global Markets

- Overview of the global economy, cross-border transactions and the financial risks faced by companies engaged in international business.

READ:

- Exchange Rates: Definitions and the Real Exchange Rate (UV0976)
- Note on the Balance of Payments (HBR 9-797-091)

Class 2, September 4: The Foreign Exchange Market – Spot and Forward Transactions

- Discussion of the functioning of international currency markets. Spot and forward transactions, bid/ask spreads and a game with a thick English accent.

READ:

- Foreign exchange markets and transactions (HBR 9-215-016), except futures and options
Class 3, September 11: International Parity Conditions

Quiz 1 at the beginning of class 3
- The relation between interest rates, prices and exchange rates. The role of arbitrage and of Mrs. Watanabe.

READ:
- Parity Conditions in International Markets (UVA-F-1572)
- Big Mac index, latest version is here
- Carry on Trading, Economist, August 10, 2013, download here
- Not Yet Desperate Housewives, Economist, August 16, 2007, download here

Class 4, September 18: Futures and Options
- Transaction exposure and the use of options and futures to reduce exchange rate risk associated with cross-currency transactions.

READ:
- Foreign exchange markets and transactions (HBR 9-215-016), futures and options
- Foreign Currency Derivatives, Chapter 8 of Multinational Business Finance, Eiteman, Stonehill, Moffett, 2009

Class 5, September 25: Case Discussion / Review

Case write-up due at the beginning of class 5

CASE: Pixonix Inc., Addressing Foreign Currency Exposure, (Ivey 908N13)

Part 2: Foreign Exchange Risk Exposure and Hedging

Learning objectives:
- Identify different types of exchange rate risks faced by companies with international operations
- Analyze the reasons a firm engages in hedging (or not)
- Understand and design hedging policies
Class 6, October 2: Economic and Translation Exposure

*Quiz 2 at the beginning of class 6*
- Different types of exchange rate exposure (cash-flow, assets, accounting), the relation between price movements and exchange rate exposure and financial and operational hedging.

**READ:**
- Economic Exposure (UVA-F-1603)
- Note on Transaction and Translation Exposure (HBR 9-288-017)

Class 7, October 9: Foreign currency financing (loans)
- The availability of loans on international markets, the cost of debt and the choice between domestic currency and foreign currency debt.

**READ:**
- International Debt Financing, Chapter 11 of International Financial Management, Bekaert and Hodrick, 2009

Class 8, October 16: EXAM

Class 9, October 23: Currency and Interest Rate Swaps
- The use of swaps to manage interest rate risk and the currency denomination of debt.

**READ:**
- Interest Rate and Foreign Currency Swaps, Chapter 21 of International Financial Management, Bekaert and Hodrick, 2012 (note: in same pdf file as chapter 11)

Class 10, October 30: Case Discussion

*Case write-up due at the beginning of class 10*
- CASE: Hedging Currency Risks at AIFS (HBR 9-205-026)
Part 3: Financial Management of the Multinational Firm

Learning objectives:

- Understand how MNCs raise capital abroad and which instruments they might use.
- Consider choices with regard to international capital structure
- Explore the role of (corporate) governance in international financing decisions

Class 11, November 6: Foreign Direct Investment

*Quiz 3 at the beginning of class 11*

- The costs and benefits of investing abroad.

**READ:**

- Foreign Direct Investment Theory and Political Risk, Chapter 18 of Multinational Business Finance, Eiteman, Stonehill, Moffett, 2009

Class 12, November 13: International Capital Structure

- Allocating financial resources across countries

**READ:**

- Multinational Capital Budgeting, Chapter 19 of Multinational Business Finance, Eiteman, Stonehill, Moffett, 2009

Class 13, November 20: International Taxation

- The mysteries of Double Dutch and an Irish Sandwich

**READ:**

- Multinational Tax Management, Chapter 20 of Multinational Business Finance, Eiteman, Stonehill, Moffett, 2009

Class 14, December 4: Case Discussion / Wrap-up

*Case Write-Up Due at the beginning of class 14*

**CASE:** Refinancing Shanghai General Motors (HBS 9-204-031)
Cases

There are three case studies, one at the end of each of the three parts of the course. The cases provide insight into the challenges faced by companies that engage in international financial transactions. In the context of this course, the cases give students the opportunity to apply the tools developed in the course to real problems. As you will quickly find out, there is no single correct solution to these problems. Consequently, a good case write-up does not just recommend a preferred solution, but provides arguments in favor and highlights the assumptions made to arrive at the recommendation (and the potential risks associated with it).

Write-ups The case write-up is expected to be in the form of an essay or executive memo of no more than three single-spaced pages (excluding tables and exhibits). The memo should be in a 12 pt font with one-inch margins and I strongly prefer a serif font, such as Times New Roman, over a sans-serif font such as Arial.

Preparation Carefully read the case, including the tables, figures and other exhibits. Use the questions that accompany the case to analyze it and to determine which of the concepts and tools that we discussed in class apply to the case.

Recommendation The cases generally invite you to make a recommendation about the course of action that a company should take. Choosing what to recommend will generally require some quantitative analysis (e.g. to calculate the cost of hedging strategies). Any recommendations should be specific and you should be able to support them with arguments.

Writing your memo It is not necessary to review the entire case in your write-up, but it is important that you use key facts and numbers that support your argument (I know the cases, but you should not assume I know each and every number; use your best judgment in deciding what and what not to include; I should be able to read your memo without having to go back to the case and check). Do not just write an answer to each of the discussion questions, but incorporate them (as necessary) in your text.

Exhibits You are free to use as many tables and figures as you like to support your arguments. However, make sure that exhibits are easy to understand and that they are relevant and referred to in the text.

Language Please proofread your memo and check spelling and grammar. Avoid lengthy and complicated sentences. If you force yourself to write clearly, you are likely to catch any arguments that are weak or need clarification.

Sourcing Use notes to exhibits to clarify the source of your data. If you use any supplementary sources, be sure to identify them in a footnote or otherwise. Failure to do so constitutes plagiarism.

Group work The cases are expected to be group work, but that includes only your group. You are not allowed to discuss the case outside of your group.

Class discussion The cases will be discussed in class after you have handed them in. This is an additional opportunity to display your knowledge of the case and you or your group can be called on to answer specific questions.