



## C45.0030.001. International Financial Management (Fall 2007)

**Bernard Yeung**

**This is a tentative outline**

### Contact information

Instructor	Bernard Yeung
Office	KMC 7-87
Office hours	TBA
Phone	212-998-0425
Fax	212-995-4221
Email	<a href="mailto:byeung@stern.nyu.edu">byeung@stern.nyu.edu</a>
Web	(Blackboard)

### Course description

This course will focus on the study of international financial markets and issues of international corporate finance related to global business operations. Investors in international financial markets are exposed to various risks specific to foreign exchange transactions and have an array of instruments and securities at their disposal, e.g. swaps, futures, options etc. We will cover the causes and nature of foreign exchange fluctuations, international portfolio diversification and structure and operation of international financial markets. On the other side of the problem are multinational companies. We will focus on the distinctions in their financing decisions relative to domestic firms and examine applications of the international factor in capital budgeting and valuation decisions. The course will cover three main subjects: the characteristics of the international financial environment and foreign exchange markets; the tools for management of risks of international financial operations; the financing, investment, and strategy decisions of multinational firms.

### Textbook and course materials

1. The main textbook for the course (available from the campus bookstore) is:

*“Fundamentals of Multinational Finance,”* by M. Moffett, A. Stonehill, and D. Eiteman, published by Addison-Wesley, 2nd ed., 2006. [MSE]

The book can be obtained through NYU bookstore, from the publisher (Addison-Wesley, [www.aw-bc.com](http://www.aw-bc.com)), or through a third-party retailer (e.g. Amazon). The course will be using the MSE text throughout the semester. The textbook web page has online student resources (internet exercises, glossary of terms, self-assessment quizzes, spreadsheet exhibits, selected solutions, and supplementary mini-cases), which can be found at [http://wps.aw.com/aw\\_moffett\\_fundmult\\_2/0,10451,2016590-,00.html](http://wps.aw.com/aw_moffett_fundmult_2/0,10451,2016590-,00.html).

2. All lecture notes and optional readings as well as assignments, solutions, sample problems, and answers to your questions in one-minute memos will be uploaded to the class page on Blackboard over the course of the semester. To access the class page on Blackboard,

you have to login with your NYU net id and password at <http://sternclasses.nyu.edu/webapps/login>. I will bring handouts for the current session with me to class.

<b>Grading and course requirements – the following may change</b>
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This course has the following grading structure:

Class participation	10%
Quizzes (4)	35%
Case study (individual report)	10%
Case study (team presentation)	15%
Final exam	30%

**1. Class participation (10%).**

a) *Comments during class discussion.* Completing the assigned readings before class is highly encouraged.

b) *One-minute memos.* In the end of the class, I will usually suggest a question for a one-minute memo. Submission of memos is optional although it can improve your participation score. These memos are also a place for you to offer feedback and ask questions about the course, material covered in the class session, assignments, etc. I will not score you based on the feedback/comments you put in the memos, but I will count the fact of submitting a memo. Therefore, please put your name on each memo you submit.

**2. Quizzes (35%).**

There will be *five quizzes*, each weighing 7%. If you take all of the quizzes, I will *drop your lowest quiz score* and adjust the quiz grade respectively to the average of your best four scores.

If you miss Quiz 5, its weight will be added to the final exam weight. If you miss a quiz, except Quiz 5, its weight will be distributed equally between the quiz(zes) you have yet to take. If you miss any additional quizzes, their weight will be added to the final exam weight.

No make-up quizzes will be given. If you have a valid reason to miss a quiz and you notify me one week in advance, I will arrange for you to take the quiz prior to the scheduled quiz date.

Quizzes will be in-class, closed-book/closed-notes, on average 20-25 minutes long. On each quiz, your maximum score will be 20 points. I will adjust the time if the quiz has more or fewer questions. Quizzes will include short-answer questions and problems involving quick computation. You will have a choice of questions on each quiz.

Quizzes will be based on lecture notes and assigned textbook chapters and will test your knowledge of the course concepts and ability to apply them to international finance problems. Material in case studies and optional readings will not be included.

To prepare for the quizzes, I encourage you to solve the problem sets. You can also use self-assessment tools provided online (see above). I will provide a list of covered concepts

and quiz samples with answers before each quiz. Your quiz scores will normally become available within one or two days after the quiz date.

### **3. Problem sets.**

There will be 4 problem sets. Their main purpose is for you to practice answering questions and solving problems for the quizzes and the final. I will hand out answers to the same week, so I will not accept late submissions. Although I will not grade problem sets, I will count their regular (3 out of 4) submission in borderline cases (e.g. A vs. A- or A- vs. B+ etc.)

### **4. Case study (25%).**

Each student will be part of one of *10 four-person teams* working on the case projects. *During the third class* I will ask each team to submit a list of members and presentation date preference, so please be present on September 14.

The case can be based on the MSE textbook (mini-cases included in the book or available in the student resources section online). You are welcome to complement the case from the book with additional materials to make for a more engaging class discussion. Alternatively, the case can be based on a reputable business publication of your choosing (e.g. New York Times, Wall Street Journal, Financial Times, The Economist, Business Week etc.).

Requirements: the case should be directly related to one or more of the course concepts; two teams cannot pick the same case; each team will complete one case.

#### ***a) Team case study presentation (15%)***

Available presentation dates: November 28, November 30.

Each team should give me the presentation slides no later than November 23. You can e-mail them to me or hand in the printout.

On the presentation date, you will have 15 minutes to both present and answer questions in class. Please allow 3-5 minutes on class discussion and *10-12 minutes* on the presentation. Please do not go over the time limit. Each team member is expected to speak during the presentation. The team presentation is graded on the content as well as delivery of your findings to the class. I will offer feedback to each team after the presentation.

One of the common concerns with team projects is equity in distribution of roles and potential for free-riding. I encourage you to negotiate these issues through communication with other team members. However, if you cannot resolve these issues, please come see me. Also, I will also ask you to submit *individual peer evaluation forms (due December 7)*. The purpose of the form is to give me your opinion about the performance of the team members and whether they have done their part. I will adjust a team member's grade for the presentation based on the peer evaluations:  $\text{team presentation grade} \times (\text{average peer evaluation score of Student}) / (\text{average peer evaluation score of all students on the Student's Team})$ . Individual peer evaluation forms will be handed out and uploaded to Blackboard the week of the first presentation.

#### ***b) Individual case report (10%)***

Individual case reports are due December 7.

While you are encouraged to work together on the project and discuss it with your team members, case reports have to be done and submitted individually.

Format: typewritten; maximum length - 4 pages (size Letter); double-spaced; font 12-14, Times New Roman or similar.

Feel free to express your opinion, even if it differs from the opinion of other team members or the opinion expressed by your team during the presentation. The aim is to make your report concise and analytical: state your points clearly and avoid reiterating the case content. I will give you individual feedback.

*Guidelines for individual case reports* will be handed out and uploaded to Blackboard the week of the first presentation.

### **5. Final exam (30%).**

The date set for the final exam by the Registrar's Office is **December 19**, 10:00-11:50 AM; classroom to be announced. I will not be scheduling make-up final. If you have a valid reason for missing the final and you notify me two weeks in advance, I will arrange for you to take the exam on an earlier date.

The final will be in-class, closed-book/closed-notes; however, you may bring **one double-sided sheet** (size Letter) of notes/formulas with you. The final will be individual.

The final will be comprehensive, based on the concepts and material used in class: in lecture notes, assigned textbook chapters, problem sets, quizzes, and replies to memo questions clarifying the above material. You are not responsible for the material in optional readings or case study presentations of your team or other teams. I will distribute sample questions (with answers) and the list of important concepts before the exam. I will also hold extended office hours the week before the exam.

The grading curve. I will generally rely on the grading guidelines set by the department for advanced undergraduate electives: A (10%); A- (10-15%); B+ (10%); B and B- (50-60%); C+ and below (10%); IP and IF (no more than 5%). ([http://w4.stern.nyu.edu/finance/academic.cfm?doc\\_id=4007](http://w4.stern.nyu.edu/finance/academic.cfm?doc_id=4007)).

The Honor Code. The Honor Code applies to all assignments in this course. Honor Code violations include but are not limited to: representation of the work of others as one's own (plagiarism); unauthorized collaboration on individual assignments, and use of unauthorized aids to complete in-class assignments.

Students with disability. The university provides necessary accommodations for students with disability. If you have a disability that may affect your performance in the course, please let me know as soon as possible, and I will seek the appropriate arrangements (including the assistance from the Moses center).

<b>Important notes</b>
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### **1. Staying up-to-date with the course**

I will be using the list of e-mails of registered students to notify you of class announcements and course updates, normally twice a week. If you are not receiving any class e-mails, please let me know.

All course materials will be posted on Blackboard. I will bring printouts for the current session to class. In case of major revisions or additions, I will include mention of it in the e-mail. Due dates for assignments are listed in the class-by-class schedule. In case of any changes, I will make an announcement in class and include mention of it in the e-mail. If you missed a class, you can review the materials available online. Even if you do not submit an assignment, consider working through the problems on your own and checking with the answer key.

I will be following the book in most parts of the course. Besides going over sample problems and quizzes, you can use self-assessment resources on the online page for the textbook (see above) to practice solving problems and test your understanding of the material. This will be a valuable tool when preparing for the final.

### **2. Your questions and feedback.**

If you have a question about the class, past or current sessions, assignments etc., I encourage you to ask me. Addressing potential concerns early on can also greatly aid your work in this course.

I will hold office hours twice a week (after each class; my office is rm. 7-177 on the seventh floor): 12:15-1:15 pm; you can also come see me by appointment. In addition, I will hold extended office hours the week before the final exam.

You can contact me by e-mail about all class-related questions ([akniazev@stern.nyu.edu](mailto:akniazev@stern.nyu.edu)).

Another way to ask questions and communicate feedback to the instructor is through filling in one-minute memos. I will review the memos after class (normally, after the Wednesday class) and post answers on Blackboard.

In the middle of the semester, I will also post a short survey about the class that will be available on Blackboard. Your early feedback can help make the class better and our interaction more efficient.

### **3. Student information sheet and seating chart**

I will hand out the student information sheet during the first class. The form will not be graded, but it will give me a better idea of who you are, your academic background and goals and help me remember you ☺. Many questions are optional, however, please include a recent photo of yourself.

By the second class (September 12), please choose the seats you will be using in this class and put your name down on the seating chart (to be circulated in class).

### **4. Submission of assignments.**

In the interests of equal treatment of all students registered for this class, it is my policy not to provide deadline extensions on assignments to individual students. In the case that a course-related circumstance leads to a deadline extension, I will announce it for

everybody in class. Otherwise, the course will follow the schedule of assignments (see below) – and I will include reminders about upcoming deadlines in the regular e-mails.

The following is an exception to the above rule. If you have a valid reason (medical / travel you cannot postpone / emergencies and circumstances beyond your reasonable control or foresight etc.) to miss an in-class assignment, you should notify me in advance (2 weeks for the final; 1 week for a quiz). In that case, I will arrange for you to take it prior to the scheduled date. In the case of the team presentation, please communicate your need with other team members first and notify me 1 week in advance, then I will offer your team to move the presentation to a later date. If you fail to give me advance notice of a valid reason and do not show up, I will count the assignment as missed.

I will not accept late submissions of take-home assignments (problem sets, individual case report). Usually, I will hand out problem set solutions on the same day. I have set the individual case report submission date for December 7, 2005, the Monday after the last presentation, to give you more time to work on your case analysis. If you cannot come to class, please send the assignment to me by e-mail or drop it off at my office before the start of class (11:00 AM) on the due date. If you are using fax, please let me know (by e-mail, preferably) so that I can collect your work promptly. If submitting by e-mail, please attach the file (do not include in the body) in a common format such as MS Office or PDF.

A couple simple rules to make reading and grading the assignments easier: typewrite on Letter-sized paper, using Times New Roman or similar font of size 12-14 and double spacing. Also, please include your first and last name, the current date, and the assignment name/number; number and staple/clip multiple pages.

If you miss an assignment, the following rules apply. A missed quiz (except the last) proportionately increases the weight on the remaining quiz(zes) that are yet to be taken. If you if you have already missed one quiz (except the last), the weight of all subsequently missed quizzes is applied to your final exam. If you miss the last quiz, its weight is applied to the final. Missing the team case study presentation will lower your presentation grade and likely lower the grade of your team by detracting from the overall quality of the presentation.

**Course topics – the following dates are for the Fall 2005 classes – we shall adjust**

Below is the working version of the class-by-class schedule of course topics, assigned readings, handouts, and due dates. All information and material referenced in the schedule below can be downloaded from the course documents folder on Blackboard. This schedule is subject to slight revisions as the semester progresses, but I intend to cover all of the topics and chapters below.

		Class overview
	<b>Part I.</b>	<b>Global Financial Markets</b>
1	09/07, Wed	<u>Readings:</u> Syllabus. <u>Class:</u> Course overview. Review of the syllabus, Blackboard webpage for the course, group project. Student introductions. Business Effects of Globalization: why being global is different? Corporate governance of global businesses. <u>Handouts:</u> Syllabus. Student information sheet. <u>Due:</u> Add e-mail to class e-mail list (will be passed around)
2	09/12, Mon	<u>Readings:</u> Chapters 1, 2. <u>Class:</u> What is exchange rate regime? Analyze different types of currency regimes. History of exchange rate regimes. <u>Handouts:</u> Lecture slides. <u>Due:</u> Submit student information sheet with photo. Finalize choice of seats in the classroom and enter name on the seating chart (will be passed around).
3	09/14, Wed	<u>Readings:</u> Chapter 3. <u>Class:</u> The accounting of the balance of payments. Components of the balance of payments: the current account and the capital account. <u>Handouts:</u> Lecture slides. <b>Problem Set 1.</b> <u>Due:</u> Teams: submit final list of members and 1st and 2nd presentation date preference. Lottery to assign presentation dates in case of conflicts will be held.
4	09/19, Mon	<u>Readings:</u> Chapter 4. <u>Class:</u> How are interest rates and foreign exchange rates linked? Interest rate parity. Covered interest rate arbitrage. How forward markets reflect expectations of future spot rate? How do spot rate and forward markets align with interest rate and expected inflation differentials? Uncovered interest arbitrage. <u>Handouts:</u> Lecture slides. <u>Due:</u>
5	09/21, Wed	<u>Readings:</u> Chapter 5. <u>Class:</u> Can balance of payments dynamics explain exchange rate movements? Review of the three approaches to forecasting foreign exchange rates. Overview of some recent financial crises. <b>Review for Quiz 1.</b> <u>Handouts:</u> <b>Sample Quiz 1. Solution to Problem Set 1.</b> <u>Due:</u> <b>PROBLEM SET 1</b>
6	09/26, Mon	<u>Readings:</u> Chapter 6 <u>Class:</u> Finish Chapter 5. Overview of the foreign exchange market, its size, participants, instruments. <u>Handouts:</u> <u>Due:</u> <b>QUIZ 1 (CH. 1-4).</b>

7	09/28, Wed	<p><u>Readings:</u> Chapter 6, 7</p> <p><u>Class:</u> What is the language of foreign exchange market quotations? Foreign currency derivatives. Markets for foreign exchange derivatives.</p> <p><u>Handouts:</u> <b>Solution to Quiz 1. Problem Set 2.</b></p> <p><u>Due:</u></p>
8	10/03, Mon.	<p><u>Readings:</u> Chapter 7.</p> <p><u>Class:</u> Overview of options. Views of the buyer and writer of a call, put option.</p> <p><u>Handouts:</u></p> <p><u>Due:</u></p>
9.	10/05, Wed.	<p><u>Readings:</u> Chapter 8.</p> <p><u>Class:</u> Introduce the three main operating exposures experienced by firms. Analyze the forex transaction exposure. Identify the alternatives available to address operating exposure: forward market hedge, money market hedge, and options market hedge. <b>Review for Quiz 2.</b></p> <p><u>Handouts:</u> <b>Sample Quiz 2. Solution to Problem Set 2.</b></p> <p><u>Due:</u> <b>PROBLEM SET 2.</b></p>
	10/10, Mon	No class Enjoy the break!
9	10/12, Wed	<p><u>Readings:</u> Chapters 8, 9.</p> <p><u>Class:</u> Finish the discussion of Chapter 8 by conducting a comparison of the alternatives to hedge transaction exposure. Start discussion on operating exposure. Examine the origins of the operating exposure. Alternatives to manage operating exposure.</p> <p><u>Handouts:</u></p> <p><u>Due:</u> <b>QUIZ 2 (CH. 5, 6, 7).</b></p>
10	10/17, Mon	<p><u>Readings:</u> Chapters 9, 10.</p> <p><u>Class:</u> Finish the discussion of operating exposure. Introduce translation exposure. Analyze different translation methods.</p> <p><u>Handouts:</u> <b>Solution to Quiz 2. Problem Set 3.</b></p> <p><u>Due:</u></p>
11	10/19, Wed	<p><u>Readings:</u> Chapter 10, 11.</p> <p><u>Class:</u> Global cost and availability of capital.</p> <p><u>Handouts:</u></p> <p><u>Due:</u></p>
12	10/24, Mon	<p><u>Readings:</u> Chapter 11.</p> <p><u>Class:</u> WACC. Cost of capital of MNE and domestic firms. <b>Review for Quiz 3.</b></p> <p><u>Handouts:</u> <b>Solution to Problem Set 3. Sample Quiz 3.</b></p> <p><u>Due:</u> <b>PROBLEM SET 3.</b></p>
13	10/26, Wed	<p><u>Readings:</u> Chapter 12.</p> <p><u>Class:</u> Motives and alternative instruments to source equity globally.</p> <p><u>Handouts:</u></p> <p><u>Due:</u> <b>QUIZ 3 (CH. 8, 9, 10).</b></p>
14	10/31, Mon	<p><u>Readings:</u> Chapter 13.</p> <p><u>Class:</u> Is there optimal capital structure for multinationals? Determinants of the financial structure of the foreign subsidiaries. Overview of available international debt instruments.</p> <p><u>Handouts:</u> <b>Solution to Quiz 3. Problem Set 4.</b></p> <p><u>Due:</u></p>

15	11/02, Wed	<u>Readings:</u> Chapter 14. <u>Class:</u> How to manage interest rate risk? Overview of interest rate swaps and cross-currency swaps. <u>Handouts:</u> <u>Due:</u>
16	11/07, Mon	<u>Readings:</u> Chapters 15 <u>Class:</u> Finish the discussion on valuation techniques. Does international portfolio diversification add value? Calculation of portfolio risk and return. <b>Review for Quiz 4.</b> <u>Handouts:</u> <b>Solution to Problem Set 4. Sample Quiz 4.</b> <u>Due:</u> <b>PROBLEM SET 4.</b>
17	11/09, Wed	<u>Readings:</u> Chapters 16 <u>Class:</u> <u>Handouts:</u> <u>Due:</u> <b>QUIZ 4 (CH. 11, 12, 13, 14).</b>
18	11/14, Mon	<u>Readings:</u> Chapter 18. <u>Class:</u> Capital budgeting for multinationals. How to value a foreign project? Project versus parent valuation. Shall we use discounted cash flow valuation or real options analysis? <u>Handouts:</u> <b>Solution to Quiz 4.</b> <u>Due:</u>
19	11/16, Wed	<u>Readings:</u> Chapter 18. <u>Class:</u> Finish discussion on capital budgeting. <u>Handouts:</u> Problem set 3. <u>Due:</u>
20	11/21, Mon	<u>Readings:</u> Chapter 17. <u>Class:</u> What are the main risk factors in a foreign investment? Overview of firm-specific, country-specific, and global risks. <b>Review for Quiz 5.</b> <u>Handouts:</u> <b>Sample Quiz 5.</b> <u>Due:</u>
21	11/23, Wed	<u>Readings:</u> Chapter 19 <u>Class:</u> International trade financing. <u>Handouts:</u> <u>Due:</u> <b>QUIZ 5 (CH. 15, 16, 17, 18)</b>
22	11/28, Mon	<b>CASE STUDY PRESENTATIONS</b>
23	11/30, Wed	<b>CASE STUDY PRESENTATIONS</b>
24	12/05, Mon	<u>Readings:</u> Chapter 20 <u>Class:</u> What are the differences between tax systems around the globe? US taxation of foreign source income. <u>Handouts:</u> <u>Due:</u>
25	12/07, Wed	<i>Please complete the course / faculty evaluation (CFE) form on <a href="http://ais.stern.nyu.edu">ais.stern.nyu.edu</a>. Thank you!</i> <u>Readings:</u> Chapters 21 <u>Class:</u> How multinationals manage their working capital and international cash positions? Financing working capital. <u>Handouts:</u>

		<u>Due:</u> <b>INDIVIDUAL CASE REPORT + PEER EVALUATION FORM.</b>
26	12/12, Mon	<u>Readings:</u> Chapters 21, 22 <u>Class:</u> Finish Chapter 21. Why multinationals go for cross-border M&A? <u>Handouts:</u> <u>Due:</u>
27	12/14, Wed	<u>Readings:</u> Chapter 22 <u>Class:</u> Finish Chapter 22. <b>Review for the Final.</b> <u>Handouts:</u> <b>Sample Final.</b> <u>Due:</u> Please note that I will hold extended office hours today: 1:15-3:15 PM, rm. KMEC 7-177.
	12/19, Mon	<b>FINAL EXAM</b> 10:00 – 11:50 AM <i>Good luck on the final!</i>