Course Description

This course will cover issues related to both international markets and the financial operations of a firm within the international environment. The first part of the course will examine issues related to the international markets, including international trade and commercial policy, international investment, foreign exchange markets, the euromarkets, and currency derivative markets. The second part of the course will consider financial issues associated with the operation of a firm in the international environment. Specifically, this part of the course will focus on the identification, measurement, and management of the impact of exchange rates on the firm; issues related to the taxation of international income; the implications of political risk on project evaluation and financial structure, firms' cost of capital for international projects; and financing options and decisions in a global market. While the course delves into the theory behind the various issues, it also relies on empirical evidence and discussion of firms' real world activities. The course style is mostly lecture style and evaluates students through several quantitative problem sets, a few case studies, and a midterm and end of course exam.

Course Grading

To receive credit for the course, each student will be responsible for writing a midterm exam and a second exam. The midterm exam will be SATURDAY June 23, 2007 from 1:00pm-4:00pm. The second exam will be SATURDAY AUGUST 11, 2007 from 9:00pm – 12:00pm. Students will also be responsible for handing in several problem sets and case write-ups as part of a study group. The final grade will be determined by the following weights:

- First Exam: 30%
- Second Exam: 30%
- 3 Problem Sets/2 Cases: 30%
- Class/Group Participation: 10%

The participation portion of the grade is based upon general class participation and group participation as evaluated by your group members. To promote classroom participation, discussion is evaluated only on involvement and quality rather than on the particular position taken. Please note that 40% of the grade is determined by group activities so keep this in mind when forming study groups.
Course Materials

A bulk pack will be provided for the non-textbook readings of the course. Other handouts, such as problem sets, cases, case setups, and class notes will be provided as necessary throughout the course. Students will also receive a copy of the course slides at the beginning of each session. Much of this material can also be downloaded from the course website.


Chapters from this book are listed in the syllabus as IFM and provide useful background and additional discussion of the topics discussed in class. Due to time considerations, we will not cover all of the topics in the text, although it is highly recommended that you read the entire text. In addition it will be assumed that students are thoroughly familiar with an introductory corporate finance textbook.

In addition to the text and the required readings, avid students of international finance will wish to stay on top of current issues by following additional sources on information. Recommended sources include:

- The Economist - good economic analysis of occasional related issues.
- Financial Times - good international company and capital markets section.
- Euromoney – great international finance and banking coverage – a big read.
- CFO – a practitioner magazine on financial management issues
- Global Finance – best overall magazine for practical international finance issues

Student subscription rates are available for some of these publications. See the course website for more details.

Finally, I often refer students to web sites for additional reading material as well as current events news, and additional information on a topic, or information that would be helpful for a problem set or case. Thus it will be assumed that people have both access and the knowledge necessary to navigate around the worldwide web.

Groups

Each member of the class is encouraged become part of a study group consisting of three to five students. This group will work together and prepare answers to the discussion cases/problem sets (however, any student may elect to submit a minority opinion on an issue, if desired). Once a group is formed it cannot be changed, so please choose your groups carefully. Issues regarding free riding, shirking, etc. in group work are often more severe in the last year of a program, so be sure that you and your group internalizes such issues when forming. At the end of the course, group members will be asked to confidentially evaluate the participation of the other group members as an attempt to externally control such behavior. This evaluation will impact on the student’s class participation score.

Exam Policy

The exam is closed book although I will provide an equation sheet as the memorization of economic and financial formulas is not the goal of this course. Students need only bring a calculator and writing utensils to exams. Absences from exams must be arranged in advance and make-up exams must be taken in advance of the actual exam unless there is a confirmed medical excuse. For all exams students are expected to follow the Wharton honor code.
Cases/Problem Sets

Cases and problem sets are to be submitted via email by the time at date indicated on the class outline. The problem sets are meant as exercises to practice some of the material. Answers will be provided for the problem sets. Some of the cases will be the topic of discussion for a part of the class period, while others are meant purely as homework. Students should bring to class a copy of the case material for class discussion when indicated.

As with the real world, all of the cases are written to focus on issues, not answers, and as such are somewhat ambiguous. There are no "right answers" to the cases, only good arguments and bad arguments for taking particular actions or decisions, especially on the corporate cases. Unlike other finance courses, there is sometimes a limited amount of quantitative information on which to make a decision and thus it is often impossible to compute an exact answer as might be done in other courses.

Contact

I will generally be available for questions and office hours at some point during each weekend I am in San Francisco. I am usually available after class periods or during the lunch breaks or after dinner on internal evenings. Outside of these times the best way to contact me over the summer months will be email. During the week, if I am in the office I try to respond to emails within 24 hours, and often respond immediately. My email address is bodnar@jhu.edu. If you wish to speak to me in person, my office number is (202) 663 - 7731. My fax number is (202) 663 – 7731. I encourage you to contact me if you have questions on the material.

I have a webpage that I will use as a place to make available electronic copies of lecture notes (if you missed them in class), problems sets, cases and their solutions as well as and other sources of information regarding the class.

The address is http://finance.wharton.upenn.edu/~bodnarg
(This page should also be accessible from the WEMBA webcafe)

Follow the links for Exec MBA WEST FNCE 731. This site also contains copies of the syllabus, class outline, and a class announcement page. It will be operational by the first week of class. The course material can be found on a restricted the download page. Info on accessing the page will be provided at the first class.
Course Outline
Readings: The required (non-text) readings can be found in the bulk pack (BP). IFM refers to *International Financial Management*, by Eun and Resnick. (OL) means the reading can be found on-line and (W) means the material can be found on the course website.

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<thead>
<tr>
<th>Date &amp; Session</th>
<th>Title and Reading Assignments</th>
<th>Homework assignment</th>
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<td>5/10</td>
<td>I. International Economic Relations Among Countries</td>
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<tr>
<td>Lecture 1</td>
<td>A. International Trade and Commercial Policy</td>
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<td>1. IFM Chpt 1 Appendix 1A</td>
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<td>2. Readings from World Trade Survey from Economist 10/3/98 (BP#2, W)</td>
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<td>3. Profits over People from Economist 10/3/98 (BP#3, W)</td>
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<td>B. Balance of Payment Issues and Foreign Investment</td>
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<td>1. IFM Chpt 3</td>
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<td>2. Is the US Current Account Deficit Sustainable? R. Cooper, CESifo Forum, 2005 (BP#4, W)</td>
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<td>For Fun (OL only):</td>
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<td>Practical Debate:</td>
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<td>1. The Overstretch Myth, Levey and Brown, Foreign Affairs, Mar/Apr, 2005 (W)</td>
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<td>Good review of Excess Savings Story</td>
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<td>1. World Survey, Economist, Sept 22, 2005 (excerpts) (W)</td>
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<td>5/10</td>
<td>II. International Financial Markets</td>
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<td>Lecture 2</td>
<td>A. Exchange Rate Basics and International Currency Markets</td>
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<td>1. IFM: Chpt 4 and 5 (pp. 107 – 113)</td>
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<td>2. All About the Foreign Exchange Market in the United States, FRBNY, Chpts 2, 3, 4, 5, and 7 (BP#5, W, or OL at: <a href="http://www.newyorkfed.org/education/addpub/usfxm/">http://www.newyorkfed.org/education/addpub/usfxm/</a>)</td>
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<td>3. Big Mac Index, Economist (BP#6, W or OL at <a href="http://www.economist.com/markets/bigmac/index.cfm">http://www.economist.com/markets/bigmac/index.cfm</a>)</td>
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<td>Extra Analysis:</td>
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<td>1. A Prism into the PPP Puzzles – Parsley and Wei (W)</td>
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<td>Problem Set #1 (W): Due 5/24 11:59pm EDT (email to <a href="mailto:bodnar@jhu.edu">bodnar@jhu.edu</a>)</td>
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<td>5/11</td>
<td>Lecture 3</td>
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<td>B. International Parity Conditions and Exchange Rate Behavior</td>
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<td>1. IFM: Chpt. 5 (remainder) and 6 (pp. 138 – 143)</td>
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<td>2. The Foreign Exchange Market in the United States, FRBNY, Chpt. 11 (BP #7 or OL at <a href="http://www.newyorkfed.org/education/addpub/usfxm/">http://www.newyorkfed.org/education/addpub/usfxm/</a>)</td>
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<td>3. Anomalies, Froot and Thaler, JEP 1990 (BP #8 or W)</td>
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<td>Advanced optional reading:</td>
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5/25
Lecture 4  C. International Monetary System
1. IFM: Chpt. 2
2. The Foreign Exchange Market in the United States, FRBNY, Chpt. 10 (BP #9 or OL at http://www.newyorkfed.org/education/addpub/usfxm/)

Practical Debate:
Lost in Translation - Briefing on US - China Trade, Economist, 5/19/2007 (W)

Problem Set #2 (W) – Due SUNDAY 6/3 11:59p PDT (email to bodnar@jhu.edu)

5/26
III. The Impact of Exchange Rates on the Firm
Lecture 5  A. Corporate Exposures to Exchange Rates: Identification and Measurement
1. Corporate Exposures to Exchange Rates, classnote (BP #11 or W)
3. IFM: Chpt. 8 pp.192-94, and Chpt. 9 pp. 222-234

Extra Reading on Translation Exposure:
IFM: Chpt. 10

Case: Jaguar plc (BP#15) - Due 6/8 (in class)
also email to bodnar@jhu.edu

6/8
Case: Jaguar plc 1984
Case discussion in class

Lecture 6  B. Why Should a Firm Hedge?
1. IFM Chpt. 8 pp. 207 - 211

Sample Exams and Solutions (W)

Optional Lecture: Financial Options and Option Pricing
1. IFM: Chpt. 7, pp. 172 – 185

6/8
C. Managing Economic Exposure to Exchange Rates
1. IFM: Chpt. 8 pp. 193 – 206 and Chpt. 9 pp. 234 – 237
2. Techniques for Managing Economic Exposure,” classnote (BP #18 or W)

Problem Set #3 (W) - Due Sunday 6/17 11:59p EDT (email to bodnar@jhu.edu)
Midterm Exam (Lectures 1 – 7) 1:30 – 4:30pm in class

IV. International Investment Analysis

Lecture 8  A. Taxation of International Income and Transfer Pricing
1. IFM Chpt. 21 and Chpt. 19 pp. 476 - 484

Lecture 9  B. Cost of Capital for International Projects
1. IFM: Chpt. 17 pp. 422 - 435
2. Exchange Rates and International Differences in the Cost of Capital, McCaulley and Zimmer, FRBNY Quarterly Review, 1994 (BP #21)
3. Globalization of Capital Markets and the Cost of Capital: The Case of Nestle, R. Stulz, JACF, Fall 1995 (BP #22)

Lecture 10  C. Capital Budgeting for International Projects and Dealing with Political Risk
1. IFM Chpt 18 and Chpt. 16 pp. 410 – 417

Case: Return of Lafarge (W) - Due 7/27 (in class)

Case Discussion: Return of Lafarge

Lecture 11  D. International Performance Evaluation
1. Measuring the Performance of Operations Subject to Fluctuating Exchange Rates, Flood and Lessard (to be handed out)

Lecture 12  E. Global Financing
1. IFM: Chpts 11, 12 and 13
2. Guidelines for Global Financing Choices, Lessard and Shapiro, MCFJ, 1983 (BP #23)

Sample Exams and Solutions (W)

SECOND EXAM (Lectures 8 – 12) 9:00 – 12:00 in class

Additional materials for the cases will be handed out in class. Other supplemental news articles may also be distributed. Lecture notes will be distributed at the beginning of each lecture.