

Wharton

UNIVERSITY OF PENNSYLVANIA

International Finance, Finance 719 Fall 2004

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Course Syllabus

Description of course: The course begins by asking how are exchange rates and financial markets related – by arbitrage and by equilibrium pricing relationships, and how can exchange rates be hedged. Then the focus shifts to the broader international financial markets. Key corporate financial issues are explored including securities pricing, funding costs, and the evaluation of foreign projects.

Prerequisites: A thorough knowledge of FNCE 601/100 is assumed. A working knowledge of a spreadsheet package is also assumed.

Reading material: The bulk-pack (including cases and readings) is available at Wharton Reprographics. The bulk-pack will include the charts used in class, so it is important to purchase it right away.

Text: There is no text in this course, but class notes prepared by Prof. Karen Lewis provide an invaluable introduction to many of the topics in the course.

Cases: There are six cases and four problem sets that will be discussed in class. Students must form case study groups of 3 to 5 students to prepare the cases and other assignments. All team members are responsible for these assignments. *Every student in the group must retain a copy of the write-up and bring it to the class where the case or problem set is discussed. Assignments are due at the beginning of class. If group members attend different classes, the assignment must be submitted in the earlier class.*

Grading: You must submit all of the cases and exercises. The exams are also mandatory.

The final grade will be awarded as follows:

Exams: 70 %
Cases and problem sets: 30 %

A numerical weighted average will be computed. The numerical grade distribution will dictate the final grade, according to the faculty's recommended grade distribution. Class participation will also be taken into account in the final grade.

Important Notice: There will be two mid-term exams on the following dates:

Wednesday, October 20th (in class)
Wednesday, December 1st (in class)

Please make a note of these dates. There will be no specific makeup exams for these exams. If either exam is missed, it is necessary to take a makeup exam covering the entire course to be given at the beginning of the spring term. There will not be a final exam in the course.

Exam policy:

In the exams, students will be allowed to bring in a one-page "formula sheet". Calculators will also be needed. Exams may (almost surely will) contain questions regarding cases. There will be a review session before the exams.

Course Topics

Note: For dates of each class and due dates for assignments, see the course schedule.

Classes 1-3. Short-run exchange rate behavior: interest parity and expectations

Notes by Prof. Karen Lewis (Lewis notes), Section I, "Introduction to Foreign Exchange and Eurocurrency Markets"

Lewis notes, Section II, "Understanding Exchange Rate Behavior: Interest Rate Parity"

Assignments (due in later classes – see schedule):

Problem set on Arbitrage

Problem set on Expectations

Classes 4 and 5: Long-run exchange-rate behavior: PPP and Real exchange rates

Lewis notes, Section VI, "PPP and Real Exchange Rate Risk"

Classes 6, 7 and 8: Hedging with Forwards and Options

Lewis notes, Section III, "Forwards: Hedging"

Lewis notes, Section IV, "Hedging Part 1: Foreign Exchange Options"

Lewis notes, Section VIII, “Foreign Exchange Options,” pages 168-182
“1998 Survey of Derivatives Usage by U.S. Non-Financial Firms”

Assignment: Problem set on Hedging (due later – see schedule)

Class 7. (September 29) Case Study # 1

Cemex: Cross-Currency Debt and Exchange Rate Risk (Thunderbird)

Classes 9, 10 and 11. Hedge Ratios

Lewis notes, Section V, “Hedging Part 2: Hedge Ratios”

Assignment: Problem set on Hedge Ratios (due later – see schedule)

Class 11. (October 13) Case Study # 2: Tiffany & Co. – 1993 and Special Topics

EXAM # 1 (Wednesday, October 20th in class)

Special Topics: In addition to the assigned topics listed, there will be special topics introduced in the first half of the term when time is available.

Special Topic 1: The “Euro”

Special Topic 2: Mexican Devaluation of December 1994

Special Topic 3: Argentina and Brazil

Special Topic 4: Asian Crisis

Classes 12 and 13. International Financing

Lewis notes, Section IX, “Foreign Currency Bonds,”

Lewis notes, Section XI, Syndicated Loans, except Section C

Classes 14, 15, and 16: Currency Swaps

Lewis notes, Section X, “Currency Swaps”

Note on Foreign Currency Swaps (HBS)

Class 15. (November 3) Case Study # 3: RJ Reynolds – Part 1 (see instructions)

Class 17. (November 10) Case Study # 4: Disney’s Yen Financing

Classes 17 and 18. Foreign Exchange Exposure

Lewis notes, Section VII, “Exchange Rate Exposure”

Adler and Dumas, “Exposure to Currency Risk: Definition and Measurement”, *Financial Management*, Summer 1984.

Bodnar and Marston, “A Simple Model of Foreign Exchange Exposure” *Weiss Center for International Finance Working Paper No. 00-3*

Class 18. (November 17) Case Study # 3: RJ Reynolds – Part 2 (see instructions)

Class 19. International portfolio investment

Class 19 (November 22) Case # 5: Tektronix (C)

Class 20 and 21: Evaluation of Foreign Projects

Abuaf, N., "The International Cost of Capital - The Empirical Evidence,"
Salomon Brothers, 1997.

Stulz, René, “Globalization of Capital Markets and the Cost of Capital: the
Case of Nestlé

EXAM # 2 (Wednesday, December 1st in class)

Class 22: Political Risk

Lewis notes, Section XI, Syndicated Loans, Section C

Class 23: (December 8) Case # 6: Jaguar plc-1984