**Wharton**

**UNIVERSITY OF PENNSYLVANIA**

**FNCE 731: International Corporate Finance**

**Spring 2009**

(Preliminary: November 24, 2008)

Professor Karen Lewis Office Hours

2446 SH-DH Monday: 4:30 – 6:00

**Course Syllabus**

**Goal of Course**:

The goal of the course is to address the special problems encountered by the international financial officer, specifically:

* Cash flows in multiple currencies and the associated problems related to nominal contracts;
* Exchange rates misalignment relative to local costs and the associated problems related to competitiveness;
* Calculating the costs of capital internationally in the presence of partially segmented capital markets;
* Repatriating cash flows from multiple tax jurisdictions and the associated problems of minimizing the tax burden.

These four issues will be addressed in this course with the objective of preparing the student for careers in corporations with large operations abroad or for careers in the investment banks or consulting firms that advise these corporations.

**Course mechanics**: The course will be in lecture format along with case discussions approximately every week.

**Workload**: Intensive. The readings and cases are complex and require a lot of work.

**Grading**: To arrive at a final course grade, a numerical weighted average will be computed for four components: (a) 10 group assignments; (b) 2 individual assignments; (c) course participation; and (d) pop quizzes. Of these deliverables, you may drop one group assignment, one individual assignment and two pop quizzes.

The numerical weighted average will be calculated as follows:

1. Group Assignments (9 total): 45% => 5% per case
2. Individual Assignment : 30%
3. Pop Quizzes (Total –bottom 2): 20%
4. Group Participation (Based upon ”Salary” from Group Members): 5%

Details on these components are given below.

***Assignments*** - There are 12 assignments, typically in the form of business cases. As with actual practice in business, all of the cases are written to focus on issues, not answers, and as such are ambiguous. There are often no “right answers” to cases, just good arguments and bad arguments for taking particular actions or decisions. There is sometimes a limited amount of quantitative information on which to make a decision and thus it is often impossible to compute a precise numerical answer, as might be done in other finance courses.

Ten of the assignments are to be done in a group while two of the assignments are to be done individually. You may drop one of your group assignments and one of your individual assignments. If you hand all the group assignments in, the lowest group grade will be dropped. Similarly, if you hand in both individual assignments, the lowest individual assignment will be dropped.

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| --- | --- | --- | --- | --- |
| **Assignment**  | **Group or****Individual** | **Due Date** | **Download Site** | **Submission Button** |
| 1. GE Toys
 | Group | **Feb 2** Simulation**Feb 3** Write-up | IEMAV #1 | IEMAV #1 |
| 1. Livingston Chemicals
 | Group | **Feb 9** Simulation**Feb 10** Write-up | IEMAV #2 | IEMAV #2 |
| 1. Metallgesellshaft
 | Group | **Feb 16** Simulation**Feb 17** Write-up | IEMAV #3 | IEMAV #3 |
| 1. Jaguar, PLC
 | Group | **Feb 23** Simulation**Feb 24** Write-up | IEMAV #4 | IEMAV #4 |
| 1. Tektronix
 | **Individual** | **Mar 2** Simulation**Mar 3** Write-up | IEMAV #5 | IEMAV #5 |
| 1. Royal Dutch Shell
 | Group | **Mar 19** Write-up | Webcafe’ | IEMAV #6 |
| 1. Foreign Company Analysis
 | Group | **Mar 23** Spreadsheet**Mar 24** Presentation slides  | IEMAV #7 | IEMAV #7 |
| 1. Hozho
 | Group | **Mar31**  | Webcafe’ | IEMAV #8 |
| 1. Globalizing the Cost of Capital at AES
 | Group | **Apr 7**  | Webcafe’ | IEMAV #9 |
| 1. LaFarge
 | **Individual** | **Apr 14** | Webcafe’ | IEMAV #10 |
| 1. Petrobras
 | Group | **Apr 21**  | Webcafe’ | IEMAV #11 |
| 1. Alba’s Potline
 | Group | **Apr 28** | Webcafe’ | IEMAV #12 |

Each assignment requires a write-up that explains your answers. All of the assignments also include a computer submission either in the form of a simulation or a spreadsheet which you will prepare. The table details the submission due dates. When specified as “both,” the computer simulation deadline is the same as the write-up deadline.

***Group Participation -*** Students will be required to form “groups” for each group assignment. Each group will have a fixed “salary” which can be allocated across students depending upon who the group feels has made the most contribution. Students with a higher “salary” assigned by their group will be awarded a higher course participation grade.

**Groups for Assignment Submissions:**

For each of the cases and exercises, the students will form groups with **a maximum size of five**. Sign up for groups must be done on-line via the IEMAV (International Exposure Management and Valuation) site. A link to this site is available under “Link” on Webcafe’.

**Pop Quizzes:** Throughout the course, short pop quizzes will be conducted in class lasting approximately ten minutes. The quizzes will be conducted via hand-held electronic devices. These devices will be handed out at the beginning of the semester for each student. He/she will be responsible for bringing the device to each class. Students who do not have their devices with them will lose 10% of the points for the first time, 20% the second time, and so forth.

**Reading material**: There are two bulkpacks at Wharton Reprographics.

a. Required bulkpack - includes the cases is available at Wharton Reprographics.

b. Optional bulkpack – includes all other reading material. This material is also available on Webcafe’. Therefore, this optional bulkpack is for students who prefer to purchase a copy rather than printing it out. Ask for the “pre-pay” through Reprographics if you want this bulkpack.

**Prerequisites**: A thorough knowledge of FNCE 601 is assumed.

**Re-grade procedure**:

1. Please write a brief explanation of why you believe a question on your assignment was improperly graded. *Send an email to me with this explanation.* The assignment will be reviewed by the TAs and me. I will then inform you about whether the grade is has been changed and the reason why.

2. Requests for regrades may be submitted ***only up to two weeks*** after the graded assignment or exam has been returned to your mailfolder.

3. I reserve the right to regrade the entire assignment, which can result in a lower grade.

**Course Topics by Class <CHECK READINGS>**

**Note:** For Class numbers, please see class calendar.

**Part 1: International Cash Flow Risk and Exchange Rate Hedging**

**1. Overview: Exchange Rates and Cash Flows**

*Readings*: My Notes (MN), Section I,

**2&3. Interest Rate Parity and Forward Rates**

*Readings*: MN, Section II

**4. Standard Hedging with Forward Exchange**

*Readings*: MN, Section III

**5. Hedging I: Standard Hedging with Options**

*Readings*: MN, Section IV

**Assignment 1: IEMAV # 1 Computer Decision Submission**

**6. Assignment 1: GE Toys Case Discussion**

**7. Hedging II. Multi-year cash flows**

*Readings*: MN, Section V

**Assignment 2: IEMAV # 2 Computer Decision Submission**

**8. Assignment 2: Livingston Chemical Case Discussion**

**9. Hedging III. Hedge Ratios**

*Readings:* MN, Section V

**Assignment 3: IEMAV # 3 Computer Decision Submission**

**10. Assignment 3: Metallgesellschaft Case Discussion**

**11. Real Exchange Rate Risk**

*Readings*: MN, Section VII

**Assignment 4: Expose’ #1 Computer Decision Submission**

**12. Assignment 4: Jaguar Case Discussion**

**13. Foreign Exchange Exposure**

*Readings*: MN, Section VIII

**Assignment 5: Expose’ #2 Computer Decision Submission**

**14. Assignment 5: Tektronix Case Discussion**

**Part 2: Valuing Cash Flows Across Borders**

**15. Shareholders International Portfolio Risk**

*Readings:* MN, Section VIII

SPRING BREAK

**16. Shareholders International Portfolio Risk (cont.)**

**17. Assignment 6: Royal Dutch and Shell Case Discussion**

**Assignment 7: Foreign Company Slides Submission**

**18. Assignment 7: Foreign Company Class Presentation**

**19. Tax planning and intra-corporate fund flows**

*Readings*: Baker, J. C., International Finance, chapter 17: "Taxation of International Operations".

**20. Assignment 8: Hozho Case Discussion**

 **21. International Cost of Capital and Budgeting**

*Readings*: Dumas, B., "Capital Budgeting: an Analytical Framework," classnote, February 2002.

Lessard, D. R., "Incorporating Country Risk in the Valuation of Offshore Projects," *Journal of Applied Corporate Finance*, 1996, 52-63.

Diermeier, J. and B. Solnik, 2001, “Global pricing of equity: analysts and asset managers take note: a corporation's stock price is influenced by international factors in proportion to the extent of the company's foreign activities,” *Financial Analysts Journal*, 57, 4, 37-47.

**22. Assignment 9: Globalizing Cost of Capital AES Case Discussion**

**23. International Valuation**

**24. Assignment 10: LaFarge Acquires BCI Case Discussion -INDIVIDUAL**

**25. International Corporate Governance**

**26. Assignment 11: Petrobras Evaluates Pecom Discussion**

**27. International Financing**

*Readings:* MN, Section IX

**28. Assignment 12: Alba’s Potline Project Discussion**