

International Finance
Sloan School of Graduate Business Studies
MIT
Kane-Fall 2008

Class Overview:

The field of International Finance evolves almost on a daily basis. The multinational enterprise needs to react “real time” to a dynamic environment that will contribute to the success or failure of the enterprise. The multinational firm needs to distinguish itself from that of simply a domestic focused enterprise and needs to be a catalyst and a facilitator of international trade as it serves as an important producer and distributor in host countries where its subsidiaries are located. The success of a multinational enterprise depends on its ability to recognize and benefit from imperfections in national markets for products, factors of production and financial assets.

The Multinational Enterprise is defined as one that has operating subsidiaries, branches, or affiliates located in foreign countries. It also includes firms in service activities such as consulting, accounting, construction, legal, advertising, entertainment, banking, telecommunications, and lodging. The multinational enterprise is headquartered all over the world. Many of them are owned by a combination of domestic and foreign shareholders.

Even purely domestic firms often have significant international activities. These include the import and export of products, components, and services. Domestic firms also have exposure to foreign competition in their domestic market and indirect exposure to international risks through their relationships with customers and suppliers. As a result, even domestic managers need to understand international financial risk, especially those related to foreign exchange rates and the credit risks related to trade payments.

Although both domestic and multinational firms are exposed to foreign exchange risks, only multinational firms face certain unique risks that are not normally a threat to domestic operations, such as political risks. Multinationals also face tasks that can be classified as extensions of domestic finance theory. For example, the normal domestic firm approaches to cost of capital, sourcing debt and equity, capital budgeting, working capital management, taxation, and credit analysis need to be modified to accommodate foreign complexities. Financial instruments are also modified for the multinational firm and include foreign currency options and futures, interest rate and currency swaps, and letters of credit.

All of these topics and additional topics will be covered in this class. But more importantly, the class will include case studies and my personal experiences from throughout my career as the topics become realty in a current event application. We

will review current event topics from the Wall Street Journal and other periodicals as well. I sincerely hope that you enjoy the course and pursue a career in some function of the field of international finance. These topics will be relevant to whatever career path you choose to pursue. In addition, I will review certain applications of international finance that impact world social issues....in particular, through my association with "One Laptop per Child" here at MIT. CK

Note: There will be at least 3 guest lecturers during the semester....dates will depend on their schedules....

Fall 2008

Class Syllabus

Class #1 Introduction and Class Overview—Current Event update and Establishment of Class Expectation.....Overview of One Laptop per Child Case Study (WIP)

Class#2 Global Financial Management-- Chapt. 1; Comparative Corporate Governance and Financial Goals; Chapter 2; The International Monetary System Case Studies: “The failure of Corporate Governance at Enron”; “The revaluation of the Chinese Yuan”

Class#3 Global Financial Management cont'd -- Chapt. 3; The Balance of Payments; Foreign Exchange Theory-- Chapt. 4; International Parity Conditions Case Studies
“The Introduction of the Porsche 911 Carrera 4S Cabriolet”

Class#4 Foreign Exchange Theory cont'd-- Chapt. 5; Foreign Exchange Rate Determination and Forecasting ; The Foreign Exchange Market and Derivatives--
Chapt. 6 The Foreign Exchange Market; Case Studies: “JPMorgan Chase’s Forecasting Accuracy”; “The Venezuelan Bolivar Black Market”

Class#5 The Foreign Exchange Market and Derivatives Cont'd—Chapt. 7; Foreign Currency Derivatives; Foreign Exchange Exposure—Chapt. 8; Transaction Exposure
Case Studies: “Rogue Trader; Nicholas Leeson”; “Lufthansa’s purchase of Boeing 737’s”.

Class#6 Foreign Exchange Exposure Cont'd—Chapt. 9; Operating Exposure; Chapt. 10; Translation Exposure; Case Studies: “Toyota’s European Operating Exposure”
“LaJolla Engineering Services”

Class#7 Mid-Term Examination—Chapters 1-10 and all related Current Events (PLACEHOLDER)

Class#8 Financing the Global Firm—Chapt. 11; Global Cost and Availability of Capital; Chapt. 12; Sourcing Equity Globally; Case Studies: “ Petrobras of Brazil and the Cost of Capital,”; “Deutsche Bank’s Global Registered Shares,”.

Class#9 Financing the Global Firm Cont'd.—Chapt. 13; Financial Structure and International Debt; Chapt 14; Interest Rate and Currency Swaps; Case Studies: “Tirstrup BioMechanics (Denmark): Raising Dollar Debt”, “McDonald’s Corporation’s British Pound Exposure”.

Class#10 Financing the Global Firm Cont'd—Chapt. 15; International Portfolio Theory and Diversification; Foreign Investment Decisions—Chapt. 16; Foreign Direct Investment Theory and Strategy; Case Studies: “Strategic Currency Hedging” “Benecol’s Global Licensing Agreement”.

Class#11 Foreign Investment Decisions, Cont’d—Chapt. 17; Political Risk Assessment and Management; Chapt. 18; Multinational Capital Budgeting Case Studies: “Globalization and Starbucks Coffee” ; “Carlton’s Chinese Market Entry-An Application of Real Option Analysis”.

Class#12 *Term Paper Due*** Foreign Investment Decisions, Cont’d—Chapt. 19; Cross-Border Mergers, Acquisitions and Valuation; Managing Multinational Operations—Chapt. 20; International Trade Finance; Case Studies: “The Bidding War for Harbin Brewery Group (China)”; “Crosswell’s International’s Precious Ultra-Thin Diapers”.**

Class#13 *Career Development Review—Opportunities in International Finance***; Managing Multinational Operations, Cont’d; Chapt. 21; Multinational Tax Management; Chapt. 22; Working Capital Management; Case Studies; “Stanley Works and Corporate Inversion”; “Honeywell and Pakistan International Airways”**

Class#14 *Final Research Paper —Cumulative Chapt. 1-22; all related Current Events. (PLACEHOLDER)**

Note: Grading for this class will be based on Exam, Final Paper, attendance and class participation.(weighted relatively evenly). Exam format and/or research paper is still to be determined. However, current event discussion and interaction in class will make up a material amount of grade so attendance and participation are a “MUST”.