

# Wharton

UNIVERSITY OF PENNSYLVANIA

## FNCE 731: International Corporate Finance

Spring 2014

(Preliminary Version: Subject to Change)

Professor Karen Lewis Office Hours  
2446 SH-DH: Tuesday 1:30-3:00 and by appointment

### 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 operations abroad or for careers in the investment banks or consulting firms that advise these corporations.

**Course expectations:** In order to focus upon real world problems faced by companies, this course relies heavily on cases. As such, there are case discussions on most Wednesdays. Even if you drop all allowable case submissions (two during the semester), you should anticipate nine weeks in which there is a deliverable. During a 14 week semester, this schedule works out to a deliverable roughly 9/14 or 64% of the weeks. Please be aware of this expectation when deciding whether or not to take this course.

**Course mechanics:** The course generally alternates between lectures and case discussions approximately every week.

**Class participation:** Roughly 45% of the class time is spent on case discussions and it is not possible to have these discussions without student participation. Therefore, there are two components to the participation grade. (a) Attendance: Attendance counts two-thirds towards the participation grade. It will be taken every class discussion day and possibly on a random basis on other days. Attendance is taken promptly at the beginning of the class. If you are late to class, it is your responsibility to let me know at the end of that class period that you were late. Late attendance will count 75% of regular attendance. (b) Discussion: A discussion grade will count one-thirds towards the participation grade. The discussion grade

will depend upon the willingness of students to give answers when called upon (whether right or wrong) and also willingness to volunteer to help discuss case questions. A participation grade will be posted twice a semester on Canvas.

**Overall Grading:** To arrive at a final course grade, a numerical weighted average will be computed for four components: (a) 6 case write-ups; (b) 4 case problem sets; (c) 2 midterm exams; and (d) course participation. The write-ups and problem sets are to be done in “groups”. (The definition of a “group” is described below.) Of these deliverables, you may drop **one** case write-up and **one** case problem set.

The numerical weighted average will be calculated as follows:

Group Write-ups (5 total after drop): 40% => 8% per case

Group Problem Sets (2 total after drop): 7.5% => 3.75% per problem set

Midterm Exams: 40% => 20% per exam

Class Participation: 10%

Group Participation: 2.5%

Details on these components are given below.

**Group Assignments** - There are 9 group assignments, typically in the form of business cases. Three of these cases only require a short problem set. The other six assignments involve either a written case submission or a presentation. As with actual practice in business, all of the cases are written to focus on issues, not answers, and as such may be 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 may be impossible to compute a precise numerical answer. “Case write-ups” require an explanation of your answers. Some of the assignments also include a computer submission either in the form of a simulation or a spreadsheet which you will prepare. “Problem sets” require a brief summary of problem set answers. The table below details the submission due dates.

**Exams** – There are two midterm exams that are to be done individually. The first midterm exam will be in class. The second midterm exam will be a take home case write-up.

**“Groups”** - Groups will be formed by students through the IEMAV site (accessible through Canvas). The group sign-up procedure will be covered in detail during class. Generally, students prefer to form a group early in the semester and keep with that group throughout. Nevertheless, students sometimes prefer to submit assignments individually or to join a different group during the course of the semester. These changes are straightforward through the IEMAV site and do not require permission from me.

**Course Materials and Submissions** – All course materials will be accessible through the Canvas site. All submissions will be done on the IEMAV site (accessible through Canvas). The table below summarized the due dates and submission buttons on IEMAV.

<b>Assignment</b>	<b>Type</b>	<b>Due Date*</b>	<b>Submission Button</b>
1. GE Toys	Simulation* & Write-up	<b>Feb 5</b>	IEMAV #1
2. Livingston Chemicals	Simulation* & Write-up	<b>Feb 12</b>	IEMAV #2
3. Expose' and Jaguar	Simulation* & Write-up	<b>Feb 19</b>	IEMAV #4
<b>Midterm #1</b>	<b>In Class Exam</b>	<b>Feb 26</b>	None
4. Royal Dutch Shell	Problem Set	<b>Mar 19</b>	IEMAV #6
5. Foreign Company Analysis	Presentation & Spreadsheet	<b>Mar 26</b>	IEMAV #7
6. Hozho	Write-up	<b>Apr 2</b>	IEMAV #8
7. Globalizing the Cost of Capital at AES	Write-up	<b>Apr 9</b>	IEMAV #9
8. Country Risk Analysis and Managing Crises: Tower Associates	Problem Set	<b>Apr 16</b>	IEMAV #10
<b>Midterm #2 (LaFarge)</b>	<b>Take Home</b>	<b>Apr 23</b>	IEMAV #11
9. Petrobras	Problem Set	<b>Apr 30</b>	IEMAV #12

\* 10:30 AM *except for simulations which are due 8:30 AM*

**Group Participation** - Students will be required to form groups for each 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 group participation grade. These salaries are scaled by the group, the “firm.” Often times, groups choose to give all students in their “firm” the same grade. In that case, groups with smaller numbers of students will receive higher group grades relative to the rest of the class.

**Groups for Assignment Submissions:**

For each of the cases and exercises, the students will form groups with a **maximum size of four**. Sign up for groups must be done on-line via the IEMAV (International Exposure Management and Valuation) site. Links to this site are available on Canvas.

**Reading material:**

- a. Cases: All copyrighted cases are available for purchase in a bulkpack at Wharton Reprographics.
- b. Lecture Notes (labeled “My Notes” or MN below), Slides, Additional Reading: All these material are posted on Canvas. Slides will be posted prior to the class in which they are discussed.

**Prerequisites:** A thorough knowledge of Corporate Finance (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. Please note that regrades sometimes result in lowering the grade when it appears that some credits were not deserved after closer re inspection.

## **Course Topics by Class**

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

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

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

*Class Number: 1- Overview*

*Readings: My Notes (MN), Chapter 1*

#### **Module 2: Interest Parity and Hedging Single Cash Flows**

*Class Numbers: 2 to 3 - Interest Rate Parity and Standard Hedging with Forwards*

*Readings: MN, Chapter 2*

*Class Numbers: 4 – Standard Hedging with Options*

*Readings: MN, Chapter 3*

#### **Class 6. GE Toys Case Discussion**

#### **Module 3: Hedging Multi-Period Cash Flows**

*Class Numbers: 5 – Hedging Multi-Periods*

*Readings: MN, Chapter 4*

**Class 8. Livingston Chemical Case Discussion**

**Module 4: Real Exchange Rate Risk and Exposure**

*Class Numbers: 7 – PPP and Real Exchange Rate Risk*

*Readings: MN, Chapter 5*

*Class Numbers: 9 – Exchange Rate Exposure*

*Readings: MN, Chapter 6*

**Class 10. Expose’#1 (Jaguar) Case Discussion**

**Module 5: IN CLASS MIDTERM – Part 1 Summary**

**Class 11. Midterm Review**

*Readings: Old Exams on Canvas*

**Class 12. MIDTERM 1: In class**

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

**Module 6: Shareholders Risk**

*Class Numbers: 13 & 14: International Portfolio Risk*

*Readings: MN, Chapter 7*

**Class 16. Royal Dutch and Shell Case Discussion**

**Class 18. Foreign Company Class Presentations**

**Module 7: Tax planning and intra-corporate fund flows**

*Class Number 15 & 17: International taxes Lecture*

*Readings: MN, Chapter 8*

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

**Class 20. Hozho Case Discussion**

**Module 8: International Cost of Capital**

*Class Number 19: International cost of capital Lecture*

*Readings: MN, Chapter 9*

**Class 22. Globalizing Cost of Capital AES Case Discussion**

**Module 9: International Capital Budgeting and Valuation**

*Class Numbers: 21 & 23: International Budgeting and Valuation Lectures*

*Readings: MN, Chapter 10*

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

**Module 10: Assessing Country and Sovereign Risk**

*Class Number: 25 Country and Sovereign Risk Lecture*

*Readings: MN, Chapter 11*

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

**Class 24. Country Risk Analysis and Managing Crises: Case Discussion**

**Module 11: TAKE HOME MIDTERM – Part 2 Summary**

**Class 26. LaFarge Acquires BCI Case Discussion**

**Module 12: International Valuation using Comparables**

*Class Numbers: 27: Valuation with Comparables Lecture*

*Readings: MN, Chapter 10*

**Class 28. Petrobras Case Discussion**