

# Wharton

UNIVERSITY OF PENNSYLVANIA

## **FNCE 208: International Corporate Finance**

**Spring 2015**

(Preliminary – Subject to Revision)

Professor Karen Lewis Office Hours  
2446 SH-DH: Tuesday 1:30-2:55 and by appointment

### **Course Syllabus**

#### **Learning Objectives:**

In this course, you will learn how to evaluate problems encountered by the international financial officer of a corporation, including how to:

- Assess the company's risk exposure due to cash flows that may be denominated in foreign currency and how to manage that risk;
- Consider the effects of inflation differences across countries on company competitiveness and profitability;
- Calculate the cost of capital internationally and determine company valuations across countries;
- Decide when to repatriate foreign cash flows in view of multiple international tax jurisdictions.

#### **Who Would Benefit From This Class?**

Studying the topics in this course, generally benefits students who are preparing for careers that either work directly with international corporations or else evaluate these corporations. For example, understanding these topics is often useful for work in:

- Companies with operations abroad or
- Firms that consult or work with these international companies or
- Private equity or hedge funds that invest in these companies.

**Course expectations:** In order to focus upon real world problems faced by companies, this course uses many case examples. Some of these cases require group write-ups. I present others in class to highlight issues described in the lectures. In addition, there will be two in-class midterm exams. The calendar for these cases and exams are below as well as on Canvas.

**Overall Grading:** To arrive at a final course grade, a numerical weighted average will be computed for five components: (a) 2 in-class midterm exams; (a) 6 regular case write-ups, one of which may be dropped; (c) a capstone case write-up; (d) 3 brief "problem sets," one of which may be dropped, and (d) course participation.

All assignments may be done with a group, or individually, according to your preference.

The numerical weighted average will be calculated as follows:

1. Midterm Exams: 40% => 20% per exam
2. Regular Write-ups (4 total after drop): 36% => 8% per case
3. Capstone Case: 12%
4. Problem Sets (2 total after drop): 5% => 2.5% per problem set
5. Class Participation: 7%

Details on these components are given below.

**1. Exams** – There are two in-class midterm exams.

**2. Regular Write-ups** - There are 5 write-ups, 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 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. The lowest grade will be dropped and you may therefore choose not to turn in one assignment.

**3. Capstone Case** – There will be an extended write-up at the end of the class to pull together the topics you will have learned throughout the semester. Therefore this case cannot be dropped.

**4. Problem Sets** – On days when I present a case, a “problem set” answering a few short questions will be assigned. These assignments will be given an overall grade category of “check” – satisfactory, “check +” – superior, and “check -” – below average. The lowest grade for the problem set assignments will be dropped and you may therefore choose not to turn in one assignment.

**5. Class participation:** 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. (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 as “check”, check+, and check -.

**Groups** - Groups will be formed 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. *The maximum number of students permitted in a group is 4.*

**Course Materials, Submissions, and Other Basic Information:**

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 Location</b>
1. GE Toys	Simulation* & Write-up	<b>Feb 4</b>	IEMAV
2. Livingston Chemicals	Simulation* & Problem Set	<b>Feb 11</b>	IEMAV
3. Expose' and Jaguar	Simulation* & Write-up	<b>Feb 18</b>	IEMAV
<b>Midterm #1</b>	<b>In Class Exam</b>	<b>Feb 25</b>	Class
4. Royal Dutch Shell	Problem Set	<b>Mar 18</b>	IEMAV
5. Foreign Company Analysis	Presentation & Spreadsheet	<b>Mar 25</b>	IEMAV
6. Hozho	Write-up	<b>Apr 1</b>	IEMAV
7. Globalizing the Cost of Capital at AES	Problem Set	<b>Apr 8</b>	IEMAV
<b>Midterm #2</b>	<b>In Class Exam</b>	<b>April 15</b>	Class
8. <b>The Return of LaFarge (Capstone Case)</b>	Write-up	<b>Apr 29</b>	IEMAV

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

**Reading material:**

- a. *Cases:* All copyrighted cases are available for purchase in a bulkpack at Wharton Reprographics through Study.Net. All non-copyrighted cases are available on Canvas.

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 100) 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 to me *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.

## **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- 24: 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 Numbers: 25-27 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.

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

**Class 28. LaFarge Acquires BCI Case Discussion**