B8310: Advance International Corporate Finance
Fall Quarter 2013

Professor Robert J. Hodrick
Telephone: 212-854-3413
E-Mail: rh169@columbia.edu
Office: 414 Uris Hall
Office Hours: Tuesday, 1:00 - 2:00; Thursday, 4:00-5:00; or by appointment

The course examines important issues in international corporate finance using a mixture of classes involving lecture/discussion and the analysis of cases. After a review of international finance fundamentals, considerable time is devoted to international capital budgeting decisions, which require an understanding of exchange rates and the determination of an appropriate cost of capital. These issues are examined as they arise in the valuation of direct foreign investments, in leveraged buyouts, in initial public offerings, in equity carve outs and in international mergers and acquisitions. Many of the cases involve corporations in emerging markets where issues of political risk arise. The course also analyzes the determination and management of foreign exchange risks of various types. The cases include discussions of the use of foreign currency forwards, options, and swaps and their appropriate use in risk management. The course concludes with an analysis of the financing large projects in developing markets.

Students should have taken B8306 - Capital Markets and Investments or its equivalent prior to enrolling in the course.


Course Requirements:

Your grade will be based on the following requirements:

Class Participation: 25%; Five Group Executive Memorandums: 75%

You are expected to participate as an equal partner in your group, which can have as few as three and as many as five members. In the last class, I will ask all group members for a private report that allocates the percentage share of work that they think each member did, including themselves.

Note on Executive Memorandums:

The due dates for the assignments are listed on the schedule. Executive Memorandums are limited to three pages (typed, double spaced, minimum 11 point font). The first three pages must contain your entire case discussion. Supporting data, tables, or graphs can be included at the back of the memo in technical appendices. Papers are due at the beginning of the assigned class period. You should write the case solutions as if you are reporting to a senior person in your firm. It won’t be long before you are doing this in reality.
Honor Code Considerations:

The Executive Memorandums are to be done with your group members only. Do not share your analysis of the cases with other groups. Each group must develop and analyze its own spreadsheets and produce an independent write-up.

Schedule

Readings marked with an asterisk (*) are supplemental and are not required.

I. Introduction to Foreign Exchange Markets and Transaction Exchange Risk

Class 1, Tuesday, September 3: Spot and Forward Foreign Exchange Markets, Transaction Exchange Risks, and Interest Rate Parity

Bekaert and Hodrick, Chapter 2, The Foreign Exchange Market
Bekaert and Hodrick, Chapter 3, Forward Markets and Transaction Exchange Risk
Bekaert and Hodrick, Chapter 6, Interest Rate Parity

Class 2, Thursday, September 5: Alternative Exchange Rate Systems

Samoa Tala, HBS Case 9-209-053, Transaction Risk in Funding Micro Finance
*Bekaert and Hodrick, Chapter 4, The Balance of Payments
*Bekaert and Hodrick, Chapter 5, Exchange Rate Systems

Class 3, Tuesday, September 10: FX Risk Premiums and Hedging Transactions Risk with Foreign Currency Options

Bekaert and Hodrick, Chapter 7, Speculation and Risk in the Foreign Exchange Market
Bekaert and Hodrick, Chapters 20, Foreign Currency Futures and Options
Hedging Currency Risks at the AIFS, HBS Case 9-205-026,

Class 4, Thursday, September 12: International Financing with Exchange Risk

Sallie Mae: Reverse Yen PERLS Issue, UVA Case F-850
Turn in Executive Memorandum 1

II. Prices and Real Operating Exposure

Class 5, Tuesday, September 17: Purchasing Power Parity and Real Exchange Rates

Bekaert and Hodrick, Chapter 8, Purchasing Power Parity and Real Exchange Rates
Class 6, Thursday, September 19: Managing Real Economic Exposure
   Bekaert and Hodrick, Chapter 9, Measuring and Managing Real Exchange Risk

III. Basic International Capital Budgeting

Class 7, Tuesday, September 24: The International Cost of Capital
   Bekaert and Hodrick, Chapter 13, International Capital Market Equilibrium
   *Bekaert and Hodrick, Chapter 11, International Debt Financing
   * Bekaert and Hodrick, Chapter 12, International Equity Financing

Class 8, Thursday, September 26: Adjusted Net Present Value in an International Context
   Bekaert and Hodrick, Chapters 15, International Capital Budgeting

Class 9, Tuesday, October 1: International Wood Products Case
   Bekaert and Hodrick, Chapters 15, International Capital Budgeting

Class 10, Thursday, October 3: Valuing a Cross-Border LBO
   Valuing a Cross-Border LBO: Bidding on the Yell Group, HBS Case 9-204-033
   Turn in Executive Memorandum 2

IV. Advanced International Capital Budgeting

Class 11, Tuesday, October 8: Consolidated Machine Tool Case
   Bekaert and Hodrick, Chapter 16, Advanced Topics in International Capital Budgeting

Class 12, Thursday, October 10: Political Risk
   Bekaert and Hodrick, Chapter 14, Political and Country Risk

Class 13, Tuesday, October 22: Alternative Approaches to the Cost of Capital
   Globalizing the Cost of Capital and Capital Budgeting at AES, HBS Case 9-204-109

Class 14, Thursday, October 24: Valuation in Emerging Markets
   Brazilian Beer Negotiations: Companhia Cervejaria Brahma, S.A., UVA Case UV0277
Class 15, Tuesday, October 29: Valuation during a Financial Crisis
Drilling South, Petrobras Evaluates Pecom, HBS Case 9-204-043
Turn in Executive Memorandum 3

V. Risk Management

Class 16, Thursday, October 31: Risk Management and ANPV
Bekaert and Hodrick, Chapter 17, Risk Management and the Foreign Currency Hedging Decision

Class 17, Thursday, November 7, Risk Management at GM
Foreign Exchange Hedging Strategies at General Motors: Transactional and Translational Exposures, HBS Case 9-205-095
Foreign Exchange Hedging Strategies at General Motors: Competitive Exposures, HBS Case 9-205-096

Class 18, Tuesday, November 12: Swaps
Bekaert and Hodrick, Chapter 21, Interest Rate and Foreign Currency Swaps
Gaz de France, HBS Case 9-288-030

VI. Privatizations, IPOs, Equity Carve Outs, and the Listing Decision

Class 19, Thursday, November 14: Privatization and the IPO
Jaguar plc, 1984, HBS Case 9-290-005
Turn in Executive Memorandum 4

Class 20, Tuesday, November 19: A Chinese IPO
Baidu.com Inc.: Valuation at IPO, Stanford Case A-197

Class 21, Thursday, November 21: Equity Carve Out and the Listing Decision
Nestlé and Alcon: The Value of a Listing, HBS Case 9-205-056

VII. International Mergers and Acquisitions

Class 22, Tuesday, November 26: Financing an Acquisition Program
Dow’s Bid for Rohm and Haas, HBS Case 9-211-020
Class 23, Tuesday, December 3: International Merger Negotiations

Inbev and Anheuser-Busch, Thunderbird Case TB0251

VIII. Financing Large Projects in Emerging Markets

Class 24, Thursday, December 5: Export Credit Agencies and Project Finance

An Overview of Project Finance – 2006 Update, HBS Case 9-207-107
Aluminum Bahrain (Alba): The Pot Line 5 Expansion Project, HBS Case 9-205-027

Turn in Executive Memorandum 5