B8310: Advance International Corporate Finance  
Fall 2016

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Office Hours: Immediately after class; Tuesday, 1:00 - 2:00; or by appointment  
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Course Description: 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, we will examine international capital budgeting decisions, which require an understanding of exchange rates and the determination of an appropriate cost of capital. We will use both discounted cash flow analysis, adjusted net present value analysis, and various multiples in our valuations. These issues are examined as they arise in the valuation of direct foreign investments, leveraged buyouts, initial public offerings, and international mergers and acquisitions. Several 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 to enhance the value of a firm.

Prerequisites: This is a quantitative finance course. Students should have taken Capital Markets and Investments (B8306) or its equivalent prior to enrolling in the course.

Connection with the Core: The class will utilize, build on, and extend concepts covered in the following core courses:
  - Corporate Finance:  
    Present Value  
    The Capital Asset Pricing Model  
    Systematic vs. Idiosyncratic Risk  
    Valuing a company with discounted cash flow analysis  
  - Managerial Statistics:  
    Statistical concepts such as means, variances, and covariances  
    Normal distributions  
    Linear regression  
  - Global Economic Environment:  
    Interest Rates and Inflation  
    The Determination of Exchange Rates

Course Requirements:

Your grade will be based on the following requirements:

**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.

**Class Participation: 25%**

I expect you to be present for all classes. I start class on time and expect you to be ready to go. Think of the class as a business meeting. When on the job, you won’t want to be late for business meetings. I also expect you to be prepared and to contribute to the learning of your classmates. I ask a lot of questions and will do some cold calling. Please bring your nameplates. I expect you to use your laptop and other electronic devices appropriately. You may take notes and examine spreadsheets. Surfing the web, emailing, and texting are not allowed.

**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. 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. **Papers are due at the beginning of the assigned class period.**

**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, Wednesday, September 7: 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, Monday, September 12: 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, Wednesday, September 14: 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, Monday, September 19: 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, Wednesday, September 21: Purchasing Power Parity and Real Exchange Rates

Bekaert and Hodrick, Chapter 8, Purchasing Power Parity and Real Exchange Rates

Class 6, Monday, September 26: Managing Real Economic Exposure

Bekaert and Hodrick, Chapter 9, Measuring and Managing Real Exchange Risk

III. Basic International Capital Budgeting

Class 7, Wednesday, September 28: 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, Monday, October 3: Adjusted Net Present Value in an International Context

Bekaert and Hodrick, Chapters 15, International Capital Budgeting

Class 9, Wednesday, October 5: International Wood Products Case

Bekaert and Hodrick, Chapters 15, International Capital Budgeting
Class 10, Monday, October 10: 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, Wednesday, October 12: Consolidated Machine Tool Case

Bekaert and Hodrick, Chapter 16, Advanced Topics in International Capital Budgeting

Class 12, Monday, October 17: Political Risk

Bekaert and Hodrick, Chapter 14, Political and Country Risk

Class 13, Wednesday, October 26: Alternative Approaches to the Cost of Capital

Globalizing the Cost of Capital and Capital Budgeting at AES, HBS Case 9-204-109

Class 14, Monday, October 31: Valuation in Emerging Markets

Brazilian Beer Negotiations: Companhia Cervejaria Brahma, S.A., UVA Case UV0277

Class 15, Wednesday, November 2: 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, Wednesday, November 9: Risk Management and ANPV

Bekaert and Hodrick, Chapter 17, Risk Management and the Foreign Currency Hedging Decision

Class 17, Monday, November 14, 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, Wednesday, November 16: 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, Monday, November 21: Privatization and the IPO

Jaguar plc, 1984, HBS Case 9-290-005
Turn in Executive Memorandum 4

Class 20, Monday, November 28: A Chinese IPO

Baidu.com Inc.: Valuation at IPO, Stanford Case A-197

Class 21, Wednesday, November 30, 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, Monday, December 5: Financing an Acquisition Program

Dow’s Bid for Rohm and Haas, HBS Case 9-211-020

Class 23, Wednesday, December 7: International Merger Negotiations

Inbev and Anheuser-Busch, Thunderbird Case TB0251

VIII. Financing Large Projects in Emerging Markets

Class 24, Monday, December 12: 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
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