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 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 Finance:
- Statistical concepts such as means, variances, and covariances
- Normal distributions
- Linear regression

Global Economic Environment:
- Interest Rates and Inflation
- The Determination of Exchange Rates


Cases: Cases are available as PDFs on Canvas. Questions for the cases are also on Canvas.
Course Requirements:

Your grade will be based primarily on class participation, which will assess both the quantity but more importantly the quality of what you contribute to class discussions.

Class Participation: 75%; Take-Home Final: 25%

When cases are discussed, we will break out into groups to first read and then discuss the cases. 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. I will cold call both groups and individuals for answers.

Honor Code:

The Take-Home Final Exam is to be done individually and is open-book and open-note. Do not share your analysis of the questions with other classmates.

Schedule

All readings are required and should be done prior to the class, if possible. I realize that this block-week class is a very compact schedule, so time for case preparation will be allowed in class as well as breakout time for case discussion in groups.

Day 1:

Introduction to Foreign Exchange Markets and Transaction Exchange Risk

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

Hedging Transactions Risk with Foreign Currency Options

Bekaert and Hodrick, Chapters 20, Foreign Currency Futures and Options
Hedging Currency Risks at AIFS, HBS Case 9-205-026

International Financing with Exchange Risk

Sallie Mae: Reverse Yen PERLS Issue, UVA Case F-850

FX Risk Premiums

Bekaert and Hodrick, Chapter 7, Speculation and Risk in the Foreign Exchange Market
Day 2:

**Prices and Real Operating Exposure**

*Purchasing Power Parity and Real Exchange Rates*

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

*Managing Real Economic Exposure*

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

**Basic International Capital Budgeting**

*The International Cost of Capital*

Bekaert and Hodrick, Chapter 13, International Capital Market Equilibrium

*Adjusted Net Present Value in an International Context*

Bekaert and Hodrick, Chapters 15, International Capital Budgeting including the International Wood Products Case

Day 3:

**International Valuation**

Valuing a Cross-Border LBO: Bidding on the Yell Group, HBS Case 9-204-033

Bekaert and Hodrick, Chapter 16, Advanced Topics in International Capital Budgeting including the Consolidated Machine Tools Case.

**Political Risk**

Bekaert and Hodrick, Chapter 14, Political and Country Risk

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

Day 4:

**Valuation in Emerging Markets**

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

Inbev and Anheuser-Busch, Thunderbird Case TB0251
Drilling South, Petrobras Evaluates Pecom, HBS Case 9-204-043

Risk Management and ANPV

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

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

Day 5:

A Chinese IPO

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

Financing an Acquisition in a Financial Crisis

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

Privatization

Jaguar plc, 1984, HBS Case 9-290-005