

International Financial Management

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Course Outline

Companies are nowadays getting more international. What are the implications of this from a financial perspective? How do we evaluate an international project? How do we account for country and currency risk? How do we choose our shareholders when we go international? Which market should we tap into to raise new capital? Where is it better to borrow? How can we reduce our cost of capital by issuing in different countries/currencies? How do we hedge the economic and transaction exposure that arises from operating internationally? These are the types of questions we will address in this course. We will concentrate on the features that make operating abroad a unique challenge and we will see how to turn them into sources of comparative advantage.

The course is targeted to participants who are interested in an international career and want to have a sound grasp of the main financial topics involving the international dimension of a company. The course is mainly focused on providing the participants with a *broad strategic and integrated* framework that allows them to master the complexity of the problems facing a firm that is exposed to international markets. Global perspective and integrated problem solving are stressed. The perspective will be that of a CFO/CEO.

The structure

The course is based on lectures and cases. Each concept will be directly applied in a real case situation. The course is structured in three parts. 1) International valuation and capital budgeting, 2) Managing risk in an international context, 3) Raising funds abroad. The first module addresses the issues of how to evaluate international projects, how to reduce the cost of capital by targeting particular shareholders and how to benefit from international diversification. The second module studies how the company may eliminate the risk from operating internationally. We will focus on different types of risks and sources of uncertainty and evaluate the strategies needed

to address them. The third part focuses on where and how to raise funds. We will consider different bond and equity possibilities and study the most effective strategies in terms of cost, flexibility, and risk.

A prerequisite to take the course is FMV. The only part of CFP that is necessary is an understanding of option pricing.

Structure

The course will be taught by Professor Massa. Teaching methods will include lectures and case discussions. Cases will be based on group work. Participants are invited to form work groups during the first week of the course. Please inform the course secretary [Sharon Horry, room PMLS A2.05] of group membership.

Evaluation

The course grade will be based on the following:

- Case study write-ups: 60%
- Class participation 40%

For the purpose of grading, each case is equally weighted. There will be no mid-term or final exam. Each group is required to turn in a write-up for **only 4** of the 8 cases. Each write-up should not exceed 4 pages plus required exhibits.

Class Participation

In the course outline, you will find case and reading assignments. You should read and prepare the case reading and assignments for each class, as they will provide the basis for discussion. Failure to do so means that you will get less value out of the course than you would otherwise and you will be likely to hold up the discussion for the others by raising questions that have already been addressed in the readings.

Readings

The required readings are described in the syllabus. For each class notes covering all the material that will be discussed in class will be handed out. The readings reported in this syllabus consist either of chapters of textbooks, articles from journals, monographs or papers on specific topics. The former have been selected in a way that provides the main skeleton of the course, while the latter are an occasion for further in-depth analysis. Recent articles from specialized financial press will also be distributed. These are mainly meant to stimulate class discussion. Readings indicated with an "*" are meant to provide a more detailed coverage of the topics we will cover in class. They can be read **after** class in order to go more in detail on particular issues. The readings indicated with "C" will be discussed in class and **have to be read in advance**. In particular, for the two cases: "Global Equity Markets: the case of Royal Dutch and Shell" and "Nanpo (Holdings) Limited Initial Public Offerings" neither a write-up nor number crunching are required, but students are required to come prepared to

discuss the cases in class. The other readings are just additional, for in-depth analysis of the topic.

There is no required book for the course. However, many of the topics that are discussed in the course are well covered in the books listed below. You may want to have a personal copy for future reference. The books below are also available on reserve at the Doriot library.

Cheol Eun and Bruce Resnick, *International Financial Management*, Irwin/McGraw-Hill 4th edition, 2007

Ian Giddy, *Global Financial Markets*, Heather 1994

Bruno Solnik, *International Investments*, Fifth edition 2003, Addison-Wesley

INTERNATIONAL FINANCIAL MANAGEMENT

TOPICS

Part 1: FX Markets and FX Parity Relations

- ***Class 1: Foreign Exchange Markets and Foreign Exchange Parity Relations***

Reading: Bruno Solnik, Chapter 1* “*Foreign Exchange*”
Bruno Solnik, Chapter 2 “*International Parity Relations*” (pages 44-56) – **for this chapter, please see books on reserve at the library**

- ***Class 2: Forwards and Futures Relations***

Reading: Ian Giddy, Chapter 7* “*Currency Forwards and the Futures Market*” (pages 173-205) - **for this chapter, please see books on reserve at the library**

Part 2: International Asset Pricing and the Cost of Capital

- ***Class 3: Benefits of international portfolio diversification***

Reading: Bruno Solnik, Chapter 9* “*The Case for International Diversification*” (pages 451-506) - **for this chapter, please see books on reserve at the library**
Bruno Solnik, Chapter 4 “*International Asset Pricing*”

- ***Class 4: International capital structure and the cost of capital***

Reading: “Global Equity Markets: the case of Royal Dutch and Shell” C
FT and Economist articles C

- ***Class 5: International project evaluation: part 1***

Reading: “A practical approach to the international valuation & capital allocation puzzle”, SalomonSmithBarney* C
Eun and Resnick, Chapter 18 “*International Capital Budgeting*” (pages 449-466) - **for this chapter, please see books on reserve at the library**

- ***Class 6: International project evaluation: part 2***

Reading: Nanpo (Holdings) Limited Initial Public Offerings C

Incorporating country risk in the valuation of off-shore projects", Lessard*
"Valuation in emerging markets", James and Koller
"Event risk indicator", JP Morgan

• ***Class 7: International project evaluation: Joint ventures***

Reading: **Case Study 1: Prince International**

• ***Class 8: International project evaluation: Project Finance***

• ***Class 9: International project evaluation: Project Finance***

Reading: **Case Study 2: Petrolera Zuata**

• ***Class 10: International project evaluation: International Acquisitions***

Reading: **Case Study 3: Jaguar plc, 1989**

Part 3: Hedging Currency Risk

• ***Class 11: Currency exposure and the case for hedging***

Reading: **Case Study 4: Merton Electronics**

- "Did Ashanti break the golden rule" Corporate Finance* C
- "Aerospatiale takes dollar 'hit'", Financial Times, December 2, 1999
- "Identifying, measuring and hedging currency risk at Merck", Lewent, J.C. and Kearney, A.J., Journal of Applied Corporate Finance * C
- "A framework for risk management" Froot, Scharfstein and Stein *
- Ian Giddy, Chapter 8 "*Foreign Exchange Options*" –(pages 207-242) - **for this chapter, please see books on reserve at the library**
- "As Exchange Rates Swing, Carmakers Try to Duck", Mark Landler, January 17, 2004 C

• ***Class 12: Foreign exchange hedging contracts***

Reading: **Case Study 5: Tiffany and Co 1993**

Eun and Resnick, Chapter 8 * "*Management of Transaction Exposure*"
Eun and Resnick, Chapter 9 "*Management of Economic Exposure*"

• ***Class 13: Financial innovation in an international context***

Reading: **Case Study 6: Goldman Sachs Nikkei Put Warrants 1989**

Part 4: Raising Capital Internationally

- ***Class 14: International borrowing: Cross-currency Swaps***

Reading: Giddy, Chapter 13 * "*Currency and Interest-Rate Swaps*"

- ***Class 15: International borrowing: the Eurobond Market and Structured Products***

Reading: **Case Study 7: R. J. Reynolds International Financing**
Solnik, Chapter 7, "*Global Bond Investing*" * (pages 311-370) - **for this chapter, please see books on reserve at the library**

- ***Class 16: Multi-market placements and ADRs: tapping the US market***

Reading: **Case Study 8: Compania de Telephonos de Chile**
"Globalization, corporate finance and the cost of capital", Stulz *