

MGB 266 International Finance

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Text: Eun & Resnick, International Financial Management, 7th edition

Good sources for current news articles: Wall Street Journal, Financial Times, or The Economist

Course Description:

This course explores issues that multinational firms face and how they make international financial decisions. Key topics will be understanding and managing foreign exchange exposure, foreign direct investment decisions, and multinational capital budgeting and cash management. We will also discuss trends in international banking and alternatives for international financing. We will introduce fundamental international finance concepts: the determination of exchange rates, corporate governance, and tax impacts. We will review some of the international mechanisms available for managing risk such as futures, options, and swaps. The class will build upon key concepts in text book by discussing mini-cases and drawing from recent examples across the globe.

Class 1

- ▶ Understanding foreign exchange fluctuations and risk mitigation tools
- ▶ Foreign Exchange Markets – Chapter 5 : mini- case: Shrewsbury Herbal Products hedging decision
- ▶ Forecasting exchange rates – Chapter 6
- ▶ Thoughts to share: Signing 20-year agreement in Thailand during Asia crisis
- ▶ Thoughts to share: Hedging \$40 billion Chevron project in Australia
- ▶ Thoughts to share: hedging foreign exchange loss on euro 60M shareholder loans
- ▶ Thoughts to share: investing at 17% interest rate in Iran

Class 2

- ▶ Understanding legal, corporate governance, and political risks
- ▶ Legal risk: Mini-case; Nike (end of Chapter 1)
- ▶ Corporate governance risk: Mini-case: Parmalat (end of Chapter 4)
- ▶ Thoughts to share: Saudi Arabian Joint Venture
- ▶ Political risk
 - ▶ Credit rating tools to analyze risk
 - ▶ Mini-case: Enron in India (end of Chapter 16)

- ▶ Mini-case: Implications of UK joining the Euro club (chapter 2)
- ▶ Thoughts to share; Chevron legal challenges in Ecuador
- ▶ Current events: Brexit
- ▶ Current events: US-China tariff/trade negotiations

Class 3

- ▶ Focus on credit and interest rate risk
- ▶ What is interest rate risk?
- ▶ Connection of interest rate and exchange rate: Interest rate parity
- ▶ Interest rate and currency swaps: Chapter 14
- ▶ What is credit risk? Access to international financing; International debt markets: chapter 11, 12
- ▶ Mini-case: Sara Lee financing
- ▶ Thoughts to share: home risk bias behavior impacts portfolio diversification
- ▶ Thoughts to share: Gazprom, Russian gas company, searches for international financing options of large gas field in Arctic circle
- ▶ Thoughts to share: different financing proposal for lines of credit in US (in USD), Europe (in Euro), and China (RMB)

Class 4

- ▶ Mock Capital Budget Summit : simulation of management meeting for capital prioritization process
- ▶ Challenges in international capital structure and cost of capital – chapter 17
- ▶ International capital budgeting – chapter 18
- ▶ Mini-case: Dorchester (end of chapter 18)
- ▶ Thoughts to share: comparing acquisition of a privately-held Argentine company versus US publicly-traded company with overseas assets
- ▶ Thoughts to share: JV investment in plant in Brazil; JV partner mitigates some risks but introduces others
- ▶ Thoughts to share: decisions to handle excess cash in Honudras subsidiary (dividend, reinvest, lend, or keep surplus cash)

Class 5

- ▶ Alternatives for international financing; Importance of tax environment; Final presentations
- ▶ International tax environment and transfer pricing – Chapter 21; mini case: Signa Corp location decision
- ▶ Thoughts to share: Exxon crude oil trading strategy based on tax differentials
- ▶ Thoughts to share: tax impact of change on interest rate of shareholder loan
- ▶ Thoughts to share: tax impact for global restructuring (deemed dividend; loss of net operating loss tax benefit)
- ▶ Current events: tax reform in US
- ▶ Current events: ending Trans Pacific Partnership
- ▶ Current events: repeal of NAFTA, 25% tariff on steel imports, 25% tariff on solar panel imports
- ▶ Presentation of Final projects

Course Procedure:

Each class will refer to the chapters in the text as background. We will highlight the key concepts from each chapter and use the mini case to apply the concepts. Please come prepared to discuss the minicases.

When possible, we will refer to current news and events that relate to course topics. I'll reference some relevant examples I've run across (noted under "Thoughts to share".) Students are encouraged to submit recent news articles for class discussion. Please be sure to send them to me prior to class so we can determine if/how it can be incorporated into class agenda.

Grading will be determined as follows:

- Mid-term exam: 35% • Final presentation : 50% • In –class participation: 15%

Mid-term Exam: The exam will be a take-home exam and will test knowledge of key principles of international finance. Exams will be based on individual performance.

Final Project: Choose a US firm and a country where the firm is not currently present. Develop an in-house proposal suggesting whether and how your firm should enter the market. Be sure to include: - Financial analysis of investment decision (NPV of cash flows) - Foreign exchange risk analysis and risk mitigation recommendation - Possible financing alternatives - Tax optimization views

Final project will be prepared in groups of 2 to 4 students. It will be presented in class on the last day. The powerpoint presentation should be in in format appropriate for a corporate communication. You can select a topic and prepare a rough outline to check with me in advance for feedback. Presentations will be 15 to 20 minutes per team member with each member presenting part of the project.

This course will observe the UC Davis Code of Academic Conduct.

Please see the UC Davis Code of Academic Conduct for more details: <http://sja.ucdavis.edu/files/cac.pdf>

For questions, please contact me at Suzyktaherian@gmail.com