

6F:223, INTERNATIONAL FINANCE

UNIVERSITY OF IOWA
Henry B. Tippie College of Business

6F:223
International Finance
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Course Description

This course will cover issues related to international financial markets and the financial operations of a firm within the international environment. The first half of the course will cover the international economic and financial environment in which firms operate: the structure of international trade and foreign direct investment, and the structure and instruments of foreign exchange and Eurocurrency markets. The second half of the course will focus on applying and extending the basic principles of financial management to firms engaged in international business. Topics include identifying and managing currency risk (using both financial instruments and operational techniques), international investments, and global financing decisions.

Prerequisites: Managerial Finance (6N:225), and some previous or concurrent exposure to macroeconomics (e.g., in 6N:213) and statistics (e.g., in 6N:216)

Readings

The following will be the textbook for the course, and is available from Iowa Book and Supply:

Michael H Moffet, Arthur I. Stonehill, and David K Eiteman, *Fundamentals of Multinational Finance*, 3rd edition. Boston: Addison Wesley, 2007.

In addition, the course's bulk pack of lecture notes, homework assignments, copies of PowerPoint slides, and other material will be distributed in the first class session.

The chapters of the textbook appropriate to each section of the course are indicated below in the list of topics, denoted MSE. Readings from other sources will also be assigned, and will mostly be placed on the class ICON site; a few will be in the bulk pack. The Powerpoint presentations used in class can be downloaded from the Web site www.biz.uiowa.edu/class/6f130; copies of the slides are also included in the bulk pack.

Course requirements

Grades in the course will be based upon a midterm examination (30%), a final examination (40%), and problem sets and case studies (30%); the lowest two grades of the seven problem sets will be dropped. The single case study is a group project (3-4 people). Problem sets should be done individually and handed in (typed) in class. Late assignments will not be accepted. The final grade distribution will be curved, and is likely to be close to the finance department guidelines of 52½% A's, 45% B's, and 2½% C's. Plus/minus grades will be awarded.

It is my sincere hope that no student in this class does work that is not his or her own. However, it seems prudent to clarify in advance the policy on cheating. For problem sets, students should attempt to complete the assignments on their own. Remember that exams count for 70% of your grade, and sometimes involve time pressure. If you cannot do homework questions by yourself, you

may not be able to answer exam questions. Students may discuss the problem sets with each other, if they run into difficulties. However, all problem sets must be handed in individually, and must represent individual work. Problem sets that duplicate others' work will receive a zero. Cheating on exams will result in a zero for the exam, and an F for the course.

All students are expected to comply with the ethical standards of the Tippie College of Business Honor Code, especially during exams. Incidents of cheating will be reported to the appropriate Dean. The Honor Code may be found at <http://www.biz.uiowa.edu/mbapm/current/honorcode.cfm>. The site includes a description of the judicial procedure used for Honor Code violations, and students' rights of appeal under that procedure.

If you have a disability that may require some modification of seating, testing, or any other class requirement, please let me know as soon as possible so that appropriate arrangements can be made. Similarly, if you have any emergency medical information about which I should know, or if you need special arrangements in the event the building must be evacuated, please let me know.

The Tippie College of Business and the University of Iowa are committed to providing students with an environment free from sexual harassment. If you feel that you are being or have been harassed or you are not sure what constitutes sexual harassment, we encourage you to visit the University website, <http://www.sexualharassment.uiowa.edu/index.php>, and to seek assistance from department chairs, the Dean's Office, the University Ombuds Office, or the Office of Equal Opportunity and Diversity.

Current Events

The best coverage of international financial and economic developments is in the British financial press; in particular in *The Economist* (weekly) and in the *Financial Times* (daily). One can directly access the publications' Web sites at www.economist.com or www.FT.com. However, the Web sites provide non-subscribers only with the publications' news articles, and do not provide the survey articles and analyses that are especially valuable features of both publications. Furthermore, the *Financial Times* Web site limits non-subscribers to 5 articles per month.

For students interested in receiving their own hard copies, I have posted hyperlinks to the *Economist's* and *Financial Times's* subscription sites at www.biz.uiowa.edu/class/6f130. Both publications have special student rates; \$77 per year for *The Economist*, \$110 per year for the *Financial Times*, and \$60/year for a Web-only subscription to the *Financial Times*.

COURSE OUTLINE

MSE refers to the textbook by Moffet, Stonehill, and Eiteman.

Lecture notes numbered, e.g., I-1 are in the bulk pack.

‡ - Posted on ICON

Section I: The International Economy

1. International Trade and Commercial Policy

Note I-1, "International Trade Theory and Commercial Policy"

Des Moines Register, "Iowa Firms' Exports Grow 43% in 5 Years" (in bulk pack)

‡ "An Introduction to Non-Tariff Barriers to Trade," *FRBSLR* (1989), by

C. Coughlin and G. Wood (on ICON)

‡ "Fear of Offshoring," by Alan S. Blinder; forthcoming, *Foreign Affairs* (on ICON)

2. Balance of Payments and Foreign Investment

MSE Ch. 4: "The Balance of Payments"

Note I-2, "Balance of Payments Accounting"

‡ "Foreign Owned Companies in the United States: Malign or Benign?" *FRBSLR* (1992), by C. Coughlin

3. Exchange Rate Regimes and International Capital Flows

MSE Ch 3: "The International Monetary System"

Note I-3, "Exchange Rate Regimes, Balance of Payments, and International Capital Flows"

‡ "An Introduction to Capital Controls," *FRBSLR* (1999), by C.J. Neely

Section II: The Currency Markets and Exchange Rates

1. Foreign Currency Markets and Exchange Rate Basics

MSE Ch 5: "The Foreign Exchange Market"

Note II-1, #1 "Spot and Forward Exchange Rates"

Note II-1, #2 "Eurocurrency Markets" (also MSE Ch. 3, pp. 62-65)

Note II-1, #3 "Interest Rate Parity" (also MSE Ch. 6, pp. 169-173)

2. Exchange Rate Risk and Forecasting

Note II-2, #1 "Exchange Rate Risk"

Note II-2, #2 "Exchange Rate Forecasting"

MSE Ch. 7: "Foreign Exchange Rate Determination and Forecasting"

3. Purchasing Power Parity

Note II-3, "Purchasing Power Parity"

MSE Ch. 6, pp. 155-162

4. International Investments

MSE Ch. 16: “International Portfolio Theory and Diversification”

Note II-4, “International Investments”

NY Times, “Foreign Stocks Are Down But Aren’t Necessarily Out” (in bulk pack)

Section III: Corporations in the International Environment**1. Exchange Rate Exposure and Hedging****Transaction Exposure**

MSE Ch. 9: “Transaction Exposure”

‡Wharton/CIBC World Markets, “1998 Survey of Financial Risk Management by U.S. Non-Financial Firms”

Barron’s, “Trade Secrets: Analyzing Corporate Currency Dealings Isn’t Easy” (in bulk pack)

Operating Exposure

MSE Ch. 10: “Operating Exposure”

Translation Exposure

MSE Ch. 11: “Translation Exposure”

3. Foreign Direct Investment Decisions and Capital Budgeting

MSE Ch. 17-19

4. Taxation of Multinational Firms

MSE Ch. 21: “Multinational Tax Management”

5. Global Financing Decisions

MSE Ch. 12-14

Course schedule (projected)

Date	Topics	Assignments due
August 25	1. Introduction 2. International Trade 3. Balance of Payments	
Sept. 1	4. Currency Markets: History 5. Balance of Payments, Exchange Rate Regimes, and International Capital Flows	Problem set #1 (trade, balance of payments)
Sept. 8	6. Currency Markets: Institutional Structure 7. Spot markets 8. Forwards, swaps	
Sept. 15	9. Eurocurrency markets 10. Interest rate parity 11. Exchange rate risk (begin)	Problem set #2 (currency markets)
Sept. 22	12. Exchange rate risk (conclude) 13. Exchange rate forecasting 14. Purchasing power parity	
Sept. 29	Review session Midterm exam	Problem set #3 (IRP, X-rate risk)
Oct. 6	15. International investments 16. International diversification	
Oct. 13	17. Exchange rate exposure and hedging 18. Hedging transaction exposure	Problem set #4 (PPP; returns, risk)
Oct. 20	19. Economic/operating exposure 20. Translation exposure	Dozier case study
Oct. 27	21-2. International capital budgeting 23. Multinational taxation	Problem set #5 (X-rate exposure)
Nov. 3	24. History of international capital flows 25. Global financing decisions 26. Global equity financing	Problem set #6 (capital budgeting, taxation)
Nov. 10	Review session Final exam	Problem set #7 (cost of financing)

The schedule may change if necessitated by changes in the pace of the course.