
MBA Program



International Finance MBA 851.2

Room

ESB 116

Time

April 13 to April 23
MTWR 3:00PM to 6:15PM

Professor

Dev R. Mishra

mishra@edwards.usask.ca

Class web

Blackboard

Office hours

ESB 83

MTWR 1:30-2:30PM & open door

 966-8457

This course imparts on corporate finance issues faced by firms operating or seeking to operate internationally and corporate finance practices around the world. The course is divided into three major sections. The first section starts with an introduction of exchange rates (e.g. balance of payment, international monetary system, determinants of exchange rates, international arbitrage, purchasing power parity, and forecasting exchange rates). The second section deals with exchange rate exposure measurement and management, and the third section with the issues related to cross border investment and financing decisions e.g. capital structure, cost of capital and capital budgeting decisions, and valuation of foreign firms/projects.

COURSE REQUIREMENTS

The course follows a mix of lectures, case discussions, and interactive problem solving.

a) *Problem sets*: Solve all problems included in three problem sets, and submit solutions to assigned problems (TBA) from each problem set within the deadline (Please submit spreadsheets on Blackboard)

b) *Case analysis*: There will be approximately five presentation and discussion cases. Each non-presenting group is required to submit an analysis for 3 cases (spreadsheet). The presenting group should submit the presentation. The presentations are expected to be interactive.

c) Final Exam: TBA

Please read dishonesty Rules of the University Council. The rules can be found at:
http://www.commerce.usask.ca/ginfo/academic_dishonesty.html)

PRE-REQUISITS

Introductory corporate finance and basic knowledge of spreadsheet

TEXT, READINGS & CASES

1. Purchase online reading packet for International Finance: MBA851.2, compiled by D. Mishra, *McGraw-Hill Primis*, 2009.
2. My International Notes 1-4 (PPT from class web).
3. Readings from different journals and other sources (see contents below)

GRADING SCHEME

1. Final Exam: 30 %
 2. Assignments: 50% (3 individual problem sets *plus* 3 group cases)
 3. Presentations and Discussion: 20% (1 group presentation *plus* cumulative contribution to class discussion)
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COMPONENTS

I. Introduction and Exchange Rates (April 13 & 14)

Brief Introduction:

World Economy
International Monetary System
Balance of Payment

Exchange Rates

Exchange Rate Determination (Factors Affecting Exchange Rates)
International Arbitrage
Interest Rate Parity
Purchasing Power Parity
Forecasting Exchange Rates

Case 1 (Presented April 14, 2008)

Problem set 1 (Due: April 15, 2008)

Readings: Section I (Reading Packet), My International Notes 1 & A Survey of World Economy (Year: Latest, The Economist),

II. Exchange Rate Exposure and Hedging (April 15, 16 & 20)

Tools:

Foreign Exchange Derivatives,
Measuring Foreign Exchange Exposure
(Transaction, Economic and Translation)
Value at Risk

Problem set 2 (Due: April 20, 2008)

Hedging:

Hedging Transaction Exposure
Case 2 (Presented April 16, 2008)
Hedging Foreign Exchange Exposure
Case 3 (Presented April 20, 2008)

Readings: Section II (Reading Packet), My International Notes 2 &

Bodnar, G.M., G.S. Hayt, and R.C. Marston, 1998. 1998 Wharton survey of financial risk management by US non-financial firms. *Financial Management*, winter

Black, F., 1989. Universal Hedging: Optimizing Currency Risk and Reward in International Equity Portfolios. *Financial Analysts Journal*. (issue 4) p. 16

III. Cross boarder Investment and Financing Decisions (April 21, 22 & 23)

Review of discounted valuation:

Some simple problems in time value of money, NPV & cost of capital

Financing and Investment:

International cost of capital, political and country specific risk

Case 4 (April 22, 2008)

International capital budgeting and firm valuation

Case 5 (April 23, 2008)

Problem set 3 (Due: April 23, 2008)

Governance:

Corporate ownership structures around the world

Readings: Section III (Reading Packet), My International Notes 3 & 4, &

Stulz, René, 1995, Globalization of Capital Markets and the Cost of Capital: the Case of Nestlé, *Journal of Applied Corporate Finance* (*Skim arguments on global vs. local CAPM*)

Harvey, 2005. 12 Ways to Calculate the International Cost of Capital

Eiteman et al., Cross Boarder Mergers and Acquisitions

Which Countries Give Investors the Best Protection? World Bank note no. 109.

Readings and notes on Adjusted Present Value, Free Cash Flow Valuation, Discounted Cash Flow Valuation & Real Options

Final Exam: Due by April 24, 2008 by 10:00AM (Submit via Blackboard)

Case 1: The foreign exchange market and the Canadian dollar

1. Outline the factors that are most critical to pricing the Canadian dollar?
2. Find exchange rate quotes given by two major Canadian banks (Visit their websites), e.g. BNS and RBC, and check to see if locational arbitrage or triangular arbitrage (CA\$, US\$ and Euro) is possible.
3. Large proportion of global foreign exchange activity involves US\$ in currency pairs. Given the data in Exhibit 4, should one consider Euro successful in competing with US\$? Explain
4. Make your recommendations on the future of the C\$/US\$ exchange rate?

Case 2: Lufthansa

1. Why the U.S dollar was appreciating?
2. What kind of risk Lufthansa faces (Transaction, Translation, Economic)?
3. How much of each currency's risk it should hedge?
4. Evaluate given alternatives and suggest an appropriate strategy to Rahnu?

Case 3: Ontario teacher's pension plan board (*Discussion questions*)

1. What is the issue facing Smith and the OTPPB in 1996?
2. Why did OTPPB decide to diversify internationally?
3. Had the fund achieved right asset mix by 1996?
4. How did the fund operationalize its international investment strategy?
5. What are risks and benefits of the approach?
6. To which form of risk did OTPPB have the greatest exposure?
7. What influenced the fund to manage currency exposure?
8. What was the role of core international group?
9. What was the rationale for target hedge ratio (50%)? Is this appropriate?
10. Recommendation?

Case 4: Huaneng power international Inc.

1. Determine the cost of equity capital and cost of capital of Huaneng Power? Explain issues involved in doing so.
2. Was the chosen issue price of HPI a reasonable? Present a brief recommendation on whether, where, how and why HPI should have proceeded with the issue. (Refer to the chapters from one of the reference books, e.g. sourcing equity globally by Eiteman et al.).

Case 5: Tom.com

1. Consider the valuation of Internet stocks versus traditional firms. What are the similarities? What are the differences?
 2. Apply the implied average annual revenue growth rate approach as suggested by Perkins, as well as any other models (cost of capital and valuation models) you learned in the class to value Tom.Com. (e.g. adjusted present value method, Flows to equity model with a forecast horizon of several years e.g. 10 years, WACC model with a forecast horizon of several years, e.g. 10 years, What would be your recommended total price of the firm and share price to Andy Lau and EuroGlobal?
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Important Due Dates

Your group is required to submit solutions for 3 cases only (including the case you present) & you are required to individually submit solutions to 3 Problem Sets. You are encouraged to learn these assignments in group and write your own solutions. Use blackboard to submit your assignments. Blackboard allows you to submit solutions a few hours past the deadline, however, it records actual time for each submitted assignment.

April 14: Presentation Case 1

Foreign Exchange Market and Canadian Dollar

Submit: one page analysis addressing the questions

April 15: Problem Set 1

[Selected Questions]

April 16: Presentation Case 2

Lufthansa

Submit: Spreadsheet

April 20: Problem Set 2

[Selected questions]

Presentation Case 3

Ontario Teachers' Pension Plan

[Submit: Spreadsheet]

April 22: Presentation Case 4

Huaneng Power

Submit: Spreadsheet

April 23: Problem Set 3

[Selected Questions]

Presentation Case 5

Tom.co

Submit: Spreadsheet

Best Wishes
