



DEPARTMENT OF INTERNATIONAL BUSINESS

COURSE NUMBER: IBUS271.AX **SEMESTER:** Fall 2005

COURSE TITLE: International Business Finance

COURSE DESCRIPTION: Description of the international financial environment within which multinational firms and financial institutions operate. Analysis of challenges and international financial management strategies for these firms and institutions.

PROFESSOR: Jiawen Yang, Ph.D.
Professor of International Business and International Affairs

CLASS MEETING TIME AND PLACE: Saturdays, 9:00am – 1:30 pm (September 10 – October 22)
Alexandria Campus

OFFICE: Lisner Hall 235G, 2023 G Street, N.W., Washington, DC 20052
Tel: (202) 994-8709 Fax: (202) 994-7422
E-mail: jwyang@gwu.edu

OFFICE HOURS: Thursday, 4:00 – 6:00 pm and by appointment

REQUIRED READINGS: Eiteman, Stonehill and Moffett, *Multinational Business Finance*, 10th ed., Addison Wesley, 2004 (referred to as "ESM" in required reading assignments).

Handouts.

Wall Street Journal or *Financial Times*.

SUPPLEMENTARY READINGS: Cheol S. Eun and Bruce G. Resnick, *International Financial Management*, McGraw-Hill/Irwin, third edition, 2004 (referred to as "ER" in supplementary reading assignments).

COURSE OBJECTIVES:

The basic objective is to enhance the ability of the student to evaluate the international financial and monetary framework and then to analyze and solve problems arising in the international financial operations of a firm. The course deals with the theories and practices of international financial management.

EVALUATIONS:

Grading for the course will be based on the following:

Weekly quizzes	40%
Final exam	30%
Case studies	20%
Participation	10%

The quizzes and the final exam will cover materials contained in the lectures, class discussions, and assigned readings (including handouts). There will be four weekly quizzes (10 points each) starting from the second week of the course. Each quiz covers all previous classes with greater weights on more recent ones. The final exam covers the entire course. No out-of-class makeup quizzes will be allowed. Instead, an extra quiz is scheduled at the beginning of the first class in Week Six. You can use this quiz to make up for any missed quizzes or to replace an undesirable prior quiz grade. Everyone is required to take this quiz, even if you may not need this quiz to improve your grade. Makeup for the final exam is only allowed for medical and family emergencies. You may bring one regular-sized piece of paper (8½" by 11") for notes (both sides) and a calculator to the quizzes. For the final, you may bring two such pieces of paper for notes (both sides) and a calculator. Six problems sets and suggested answers will be distributed during the course to help participants review the course material.

Participation will be based on class attendance, fulfillment of in-class and after-class exercises, and other factors at the instructor's discretion. Prior to each class session, class participants are expected to complete the required readings for the assigned session. In addition, class participants should keep up with current events in international business finance by reading The Wall Street Journal or Financial Times. Two points will be deducted for each absence from class (including substantial late arrival and early departure) up to ten points (10% of total grade) for the entire course. See next page for specific requirements for the case studies.

BLACKBOARD: **Blackboard** (<http://www.blackboard.gwu.edu/>) will be used to distribute course materials and help course administration. Registered students are required to visit Blackboard for the course on a regular basis during the semester.

CASE STUDIES

Each class participant is required to carry out two short independent case studies. The objective of these case studies is to understand and analyze real world events using the concepts and the tools of international business finance. The case studies should be brief summaries and analyses of current events reported in the Wall Street Journal, the Financial Times, or other business media. Ideally, each study should focus on *one particular multinational company* (for example, General Electric, Cisco Systems) and in *one particular area of international business finance* (for example, International equity or debt financing, compensation for expatriates).

Specific requirements:

1. The length of each study should be at least one page (or two pages if double-spaced) excluding tables and graphs (no upper limit).
2. Each case study should include a summary of the event and a description on how it is related to international business finance.
3. The original references (news articles, for example) have to be attached to each case.
4. The cases can be submitted to the instructor through email (attached as an MS Word document; References should be attached as well) at any time before the last day of class. Early submission is encouraged.

DATA SOURCES AND REFERENCES FOR INTERNATIONAL FINANCE:

The World Bank, World Development Report. <http://www.worldbank.org/wdr/>.
IMF, World Economic Outlook. <http://www.imf.org/external/pubs/ft/weo/weorepts.htm>
IMF, International Capital Markets. <http://www.imf.org/>.
IMF, International Financial Statistics.
IMF, Balance of Payments Statistics.
IMF, Direction of Trade Statistics.
BIS, Annual Report. <http://www.bis.org/publ/index.htm>.
U.S. Department of Commerce, Survey of Current Business.
<http://www.bea.doc.gov/bea/pubs.htm>.
Board of Governors of the Federal Reserve System, Federal Reserve Bulletin.
<http://federalreserve.gov/publications.htm>.

Note:

BIS: Bank for International Settlements
IMF: International Monetary Fund

IBUS271 INTERNATIONAL BUSINESS FINANCE**FALL 2005 SCHEDULE**

WEEK	DATE &	SESSION	TOPICS
1	September 10	1	Introduction; International financial environment
		2	Foreign exchange market
2	September 17	3	Interest rate parity and applications Quiz 1 at the beginning of class
		4.	Purchasing power parity and applications
3	September 24	5	Currency futures and options Quiz 2 at the beginning of class
		6	Measuring and managing transaction exposure
4	October 1	7	Measuring and managing operating exposure Quiz 3 at the beginning of class
		8	Measuring and managing translation exposure
5	October 8	9	International financing strategies Quiz 4 at the beginning of class
		10	Measuring and managing interest rate exposure
6	October 15	11	International investment strategies Makeup quiz at the beginning of class
		12	Multinational capital budgeting
7	October 22	13	Optional topics and Review International taxation, transfer pricing Repositioning funds International trade financing
		14	Final exam

Course Outline, Assigned Readings, and References

Session 1

Introduction

The international financial environment

Required readings:

ESM: Chapters 1-3

Supplementary readings:

ER: Chapters 1-3

Askari, Hossein and Jiawen Yang. "The International Monetary System: A Partial Review of Major Issues," in Shri Bhagwan Dahiya ed. *The Current State of Business Disciplines* (Spellbound Publications, Roihtak, 2000) Vol. 3: 1429-1449.

Session 2

The foreign exchange market

Transaction exposure management: hedging with currency forward contracts

Required readings:

ESM: Chapter 4

The Federal Reserve Board, Current and historical exchange rates.
<http://www.federalreserve.gov/releases/h10/update/>.

Supplementary readings:

ER: Chapters 4 and 5

Federal Reserve Bank of New York, *All About...The Foreign Exchange Market in the United States*. <http://www.ny.frb.org/education/addpub/usfxm/>.

BIS. *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in April 2004*. September 2004. <http://www.bis.org/publ/rpfx04.pdf>.

Session 3**Interest rate parity and applications****Required readings:**

ESM: Chapters 6 and 7

Supplementary readings:

Remarks by Chairman Alan Greenspan At the European Banking Congress 2004, Frankfurt, Germany. November 19, 2004. Available on Blackboard.

Weak Dollar 101. CNN Money reports, November 19, 2004. Available on Blackboard.

Session 4**International parity conditions and application****Required readings:**

ESM: Chapters 6 and 7

The Economist, "Economics focus: MacCurrencies." Apr 24th 2003.

Yang, Jiawen, and Isabelle Bajeux-Besnainou. "Is the Chinese Currency Undervalued?" *Occasional Paper Series*, CSGOP-04-26, Center for the Study of Globalization, The George Washington University. <http://gwcs.gwu.edu/gwcs/OPS/CSGOP-04-26.pdf>.

Supplementary readings:

ER: Chapter 5

Pakko, Michael R. and Patricia S. Pollard, "Burgernomics: A Big Mac™ Guide to Purchasing Power Parity." Federal Reserve Bank of St. Louis *Review* (November/December 2003): 9-28.

<http://research.stlouisfed.org/publications/review/03/11/pakko.pdf>.

Session 5**Currency futures and options****Transaction exposure management: hedging with currency futures and options****Required readings:**

ESM: Chapter 5

Supplementary readings:

ER: Chapter 9

Visit the following websites to get ideas of the markets for futures and options:

Chicago Mercantile Exchange, www.cme.com.

Philadelphia Stock Exchange, *A User's guide to currency options*. Available at <http://www.phlx.com/educat/form.html> (as of December 16, 2003).

Session 6**Measuring and managing transaction exposure****Required readings:**

ESM: Chapter 8

Supplementary readings:

ER: Chapter 13

Bodnar, Gordon M., "1998 Wharton Survey of Financial Risk Management by U.S. Non-Financial Firms," *Financial Management*, Vol. 24, No. 4, Winter 1998, pp. 70-91.

Session 7**Measuring and managing operating exposure****Required readings:**

ESM: Chapter 9

Readings on exchange rate pass-through (on [Blackboard](#)).

Michael R. Sesit, Sebastian Moffett and Jon E. Hilsenrath. "Dollar's Strength Against Euro Could Trim U.S. Corporate Profits." *The Wall Street Journal* (online). August 20, 2003.

Supplementary readings:

ER: Chapter 12

Yang, Jiawen, "Exchange Rate Pass-Through in U.S. Manufacturing Industries," *The Review of Economics and Statistics*, 79:1 (February 1997): 95-104.

Yang, Jiawen, "Exchange Rate Changes and Pricing Behavior of U.S. Exporters," *Review of International Economics*, Volume 4, No.3 (October 1996): 339-54.

Session 8**Measuring and managing translation exposure****Required readings:**

ESM: Chapter 10

Supplementary readings:

ER: Chapter 14

Choi, Frederick D. S., Carol Ann Frost, and Gary K. Meek, *International Accounting*, third edition, Prentice Hall, 1999. Chapter 6: Foreign Currency Translation, pp. 159-205.

Visit the web sites of some major multinational companies and see their annual reports for an illustration of *currency translation adjustment* or *cumulative translation adjustment*.

Session 9**International financing strategies****Required readings:**

ESM: Chapters 11 –13 and handouts.

Supplementary readings:

ER: Chapters 6-8

Visit the following web sites for listed U.S. and non-U.S. companies in and related information:

NYSE International companies, <http://www.nyse.com/>.

Nasdaq International companies, <http://www.nasdaq.com/>.

Geert Bekaert, Campbell R. Harvey and Christian T. Lundblad. “Equity Market Liberalization in Emerging Markets,” Review, Federal Reserve Bank of St. Louis. Vol. 85, No. 4 (July August 2003): 53-74.

Session 10**Measuring and managing interest rate exposure****Required readings:**

ESM: Chapter 10

Supplementary readings:

ER: Chapter 10

ESM: Chapter 24

For CME Contract Specifications for Interest Rate Futures and Options, please visit <http://www.cme.com/>.

Session 11**International investment strategies****Required readings:**

ESM: Chapters 15, 16, 17 and 20

Supplementary readings:

IMF, *International Capital Markets: Developments, Prospects, and Key Policy Issues, current issues*. Available at <http://www.imf.org>.

Visit the following site for political risk insurance and loans programs by the U.S. Overseas Private Investment Corporation (OPIC): <http://www.opic.gov/>.

Yang, Jiawen. "Financial Liberalization, Capital Mobility, and Financial Crisis," in J. Jay Choi, ed., *Asian Financial Crisis: Financial, Structural and International Dimensions*, Amsterdam: Elsevier Science Inc., 2000, pp. 175–197.

Session 12**Multinational capital budgeting****Required readings:**

ESM: Chapter 18

Supplementary readings:

Yang, Jiawen. "Direct and Financial Foreign Investment: How Do They Differ in benefits to Developing Countries?" in Ann Marie Bissessar, ed., *Policy Transfer, New Public Management and Globalization: Mexico and the Caribbean*, New York: University Press of America, 2002, pp. 167-92.

Session 13

Optional topics and review

International taxation, transfer pricing

Repositioning funds

International trade financing

Required readings:

ESM: Chapters 17 and 21

Session 14

Final Exam