



SAINT LOUIS UNIVERSITY – MADRID CAMPUS
Faculty of Business Administration & Economics

1 Course Information

Course Title	: International Financial Management
Course Number	: FIN-4250 M01
Semester	: Fall 2016
Meeting Time	: 2:30 PM - 3:45 PM
Meeting Days	: M-W, Padre Rubio Hall 15
Prerequisite	: FIN-3010 with at least a B-; co-requisite FIN-3330, and FIN-3630, or permission of department chair
Credits hours	: 3
Curriculum	: Business core requirement

2 Instructor Information

Name	: Paolo Saona Hoffmann, Ph.D.
Office Location	: Padre Arrupe Hall, attic
Contact Telephone	: +34915545858 (ext. 254)
E-mail	: paolo.saona@slu.edu (please use the prefix “FIN-4250” to start the subject line in all e-mails pertaining to this class. For example: “FIN-4250 – I will be absent on Monday”)
Office hours	: Monday and Wednesday from 9:30 AM to 12:30 PM
Contacting me	: First, ask questions in class (it helps and others will likely have the same questions). Second, come see me during my office hours as listed above. Third, if neither of these options is possible, please send me an e-mail and alternative arrangements can be decided on

3 Course Description

The main goal of this course is to describe the Internationally Monetary System and the determination of exchange rates. Also to present and analyze the risks that the corporation faces in the global market. Finally, you will acquire the skills to hedge the above risks using the available financial instruments, as most treasurers and financial institutions do.

4 Learning objectives (desired student achievements)

- Identify shareholder wealth maximization as the goal of the multinational firm
- Describe the key theories that justify international business
- Explain how exchange rate movements are measured
- Examine the factors that determine/identify the equilibrium exchange rate
- Explain how currency futures and forward contracts and currency options contracts are used for hedging or speculation based on anticipated exchange rate movements
- Describe the exchange rate systems used by various governments
- Explain how governments can use direct and indirect intervention to influence exchange rates
- Explain the concept of interest rate parity, and how it prevents arbitrage opportunities
- Explain the Purchasing Power Parity (PPP) and International Fisher Effect (IFE) theories, and their implications for exchange rate changes
- Explain and compute how transaction exposure, economic exposure, and translation exposure can be measured
- Explain how multinational corporations determine whether to use foreign financing
- Illustrate and compute the possible benefits of financing with a portfolio of currencies
- Explain the various techniques used to optimize cash flows and compute the effective financing rate
- Demonstrate how multinational capital budgeting can be applied to determine whether an international project should be implemented, computing the NPV, IRR, and PBP
- Explain how corporate and country characteristics influence a multinational corporation's cost of capital
- Explain how corporate and country characteristics are considered by a multinational corporation when it establishes its capital structure

5 Course Required Material

Required Textbook: *International Corporate Finance* by Madura, International Student Edition, Thomson South-Western Publishers (11th edition) and teachers notes presented in the class.

Suggested Optional Reading: The Economist, Financial Times, Wall Street Journal.

Other material: Additional material such as power point presentations shown in class, the solution to the end of the chapter problems, the case studies, among others.

Financial calculator: *HP-10B* or *HP-17B* highly recommended.

6 General Information

This course will be taught with a combination of lectures, interactive discussion and hands on examples and exercises. Although the recommended readings are optional, the corresponding extracts distributed in the class are NOT. Midterm tests as well as the final exam will be based on lectures and the handouts.

7 Course Requirements

Grade Components and dates:

Mid Term Test (25%) –October 11–

Final Examination (40%) –December 14 at 15:30 hrs.–

Quizzes and assignments (35%) –Quiz I October 04 and Quiz II December 11–

Grade Scale:

A mark of x on an examination or assignment will result in a(n):

$$90.0 \leq x < 95 = A-$$

$$80.0 \leq x < 83 = B-$$

$$70.0 \leq x < 73 = C-$$

$$95.0 \leq x \leq 100 = A$$

$$83.0 \leq x < 87 = B$$

$$73.0 \leq x < 77 = C$$

$$60.0 \leq x < 70 = D$$

$$x < 60 = F$$

$$87.0 \leq x < 90 = B+$$

$$77.0 \leq x < 80 = C+$$

Grading Methodology:

- *Term Tests (65%):* There will be a total of two tests (1 midterm and 1 final examination). These evaluations will be given as closed book and are basically a mixture of multiple choice questions (+/- 35%), the solution of problems (+/-55%), and a few short answer questions (+/- 10%).
- *Quizzes and assignments (35%):* Previously to the mid-term test and the final examination, the students will take a quiz in order to be better prepared for both tests. The assignments (2) will be based on the solution of particular cases related with the studied topics.
- For participation in classes, students will be called upon randomly throughout the semester to give answers or comments on questions and issues. It is expected that the student attend the classes and follow the chapters with a high critical thinking behaviour.

Classroom Philosophy, Policy of Missing Exams & Late Submission:

- You are required to attend each class session prepared to participate and think critically during lecture and discussion sessions. You will be required to prepare in advance each class according to the instructions of the professor. As responsible adults, I trust you will be able to sustain a mutually respectful classroom atmosphere by treating all classmates as equals.
- Tests and case studies due dates are scheduled well in advance, so you can plan around these dates. I feel that exams/assignments are fair to everyone if and only if everyone completes them at the same time. It is not only impossible to come up with an alternative which is fair to everyone but it also imposes a significant cost on other students and me. Therefore, I have strict policy on late assignments/exams.
- Any consideration for missing a test will be taken into account only under truly exceptional circumstances. I will require, at a minimum, a signed formal note and a phone number of the physician or other relevant person. Be aware that a mere note indication that you visited a physician around the date of the exam will not be sufficient. The burden of the proof will be on the student. Missing exams or late submission of assignments without a formal note justifying the fact will be graded with 0.0%.
- No late submissions for the study cases will be accepted. All required assignments are to

be submitted on time. Students are expected to be working on the assignments throughout the term and not just on the last few days. Hardware failure or inaccessibility is not an excuse reason.

- There will be NO makeup exam/test. In order to be excused from an exam/test, the student must contact me before the exam. In most cases I will require students to provide me with additional documentation to justify why the student is unable to take the exam. Please note that a simple note indicating that you were seen at the health center the day of the exam does not, in and of itself provide sufficient documentation. Excuses will be granted if the student is unable to take the exam because of serious illness or injury, or a significant personal or professional commitment.
- Tardiness is at best a rude disruption to your fellow classmates who are punctual, and except for legitimate reasons (doctor's letter certifying illness for example), you are expected to attend all class sessions.
- Although there are no credits for attendance, ALL the students are expected to attend every single session. Absence will for sure be detrimental in the student's individual performance.

Late Policy:

Midterm and final examinations must be written on their respective dates. No alternative examinations will be scheduled except in the case of excused medical absences. Cases of excused medical absences must be petitioned for through the Chair of the department. Make-up midterms are subject to approval by the professor, the Chair and the Department of Business and Economics. All changes to the final examination must be approved by the Academic Dean.

Early Warning:

If you want to receive a good grade it is vital that you attend class and stay current with the material. If you miss a class for any reason it is up to you to obtain notes through someone else. I am more than happy to discuss finance (topics discussed either in class or ones that have special interest to you). However, do not expect me to repeat or summarize any lectures that you have missed. Average midterm and final examination grades typically fall into the "C-" range. To preemptively answer a question that you may have – *yes, this class is extremely difficult*. But hard continual work and dedication can ensure that you are well prepared for examinations when the time comes.

8 Course Outline¹

Part 1: Corporate Finance Abroad

1.1 Multinational Financial Management: An Overview (Chapter 1)

Multinational corporation –MNC– goals

Theories of international business

International business methods

1.2 Exchange Rate Determination (Chapter 4)

Exchange rate movements: Measurement

Exchange rate equilibrium –supply and demand of a currency–

¹ This schedule is subject to change. Eventual variations will be announced in class.

Factors that influence exchange rates –inflation rates, interest rates, income levels, governmental controls, and expectations–

1.3 Currency Derivatives (Chapter 5)

Forward market

Currency future market

Currency option market –currency call options and currency put options–

Part 2: Exchange Rate Behaviour

2.1 Government Influence on Exchange Rates (Chapter 6)

Exchange rate systems –fixed, floating, managed, and pegged systems–

Reasons for government interventions

Direct intervention

Indirect intervention

The intervention as a policy tool

2.2 International Arbitrage and Interest Rate Parity (Chapter 7)

International arbitrage

Interest rate parity (IRP)

2.3 Relationships among Inflation, Interest Rates, and Exchange Rates (Chapter 8)

Purchasing power parity (PPP)

International Fisher Effect (IFE)

Comparison of the IRP, PPP, and the IFE theories

Part 3: Exchange Risk Management

3.1 Measuring Exposure to Exchange Rate Fluctuations (Chapter 10)

Is exchange rate risk relevant?

Exposure types

Transaction exposure

Economic exposure

Translation exposure

Part 4: Long-Term Asset and Liability Management

4.1 Multinational Capital Budgeting (Chapter 14)

Subsidiary versus parent perspective

Input of MNC capital budgeting

Factors to consider in MNC capital budgeting

4.2 Multinational Cost of Capital and Capital Structure (Chapter 17)

Cost of capital: Background

MNC of capital

Costs of capital across countries

Using the cost of capital for assessing foreign projects

Part 5: Short-Term Asset and Liability Management

5.1 Short Term Financing (Chapter 20)

Short-term financing sources

International financing by MNCs
Why MNCs consider foreign currency
Determining effective financing rates
Financing with a currency portfolio

5.2 International cash management (Chapter 21)

Cash flow analysis: subsidiary perspective
Centralized cash management
How to optimize cash flows
Complications in optimizing cash flows
Investing excess cash

9 Important Dates

September 17 – Last Day to Drop a Class Without a Grade of W and/or Add a Class
September 17 – Last day to choose audit (AU) or Pass/No Pass (P/NP) options
October 30 – Last Day to Drop a Class and Receive a Grade of W
November 02 – Registration for spring 2018 semester opens

10 Academic Accommodations and Learning Resources Statement

In recognition that people learn in a variety of ways and that learning is influenced by multiple factors (e.g., prior experience, study skills, learning disability), resources to support student success are available on campus. Students who think they might benefit from these resources can find out more about:

1. Course-level support (e.g., faculty member, departmental resources, etc.) by asking your course instructor.

2. University-level support (e.g., tutoring/writing services, Disability Services) by visiting the Academic Dean's Office (San Ignacio Hall) or by going to <http://www.slu.edu/madrid/learning-resources>.

Students with a documented disability who wish to request academic accommodations must contact Disability Services to discuss accommodation requests and eligibility requirements. Once successfully registered, the student also must notify the course instructor that they wish to access accommodations in the course. Please contact Disability Services at disabilityservices-madrid@slu.edu or +915 54 58 58, ext. 230 for an appointment. Confidentiality will be observed in all inquiries. Once approved, information about the student's eligibility for academic accommodations will be shared with course instructors via email from Disability Services. For more information about academic accommodations, see "Student Resources" on the SLU-Madrid webpage.

Note: Students who do not have a documented disability but who think they may have one are encouraged to contact Disability Services.

11 Academic Integrity Statement

Academic integrity is honest, truthful and responsible conduct in all academic endeavors.

The mission of Saint Louis University is "the pursuit of truth for the greater glory of God and for the service of humanity." Accordingly, all acts of falsehood demean and compromise the corporate endeavors of teaching, research, health care and community service via which SLU embodies its mission. The University strives to prepare students for lives of personal and professional integrity, and therefore regards all breaches of academic integrity as matters of serious concern.

The governing University-level Academic Integrity Policy can be accessed on the Provost's Office website at: http://www.slu.edu/Documents/provost/academic_affairs/University-wide%20Academic%20Integrity%20Policy%20FINAL%20%20%206-26-15.pdf.

As a member of the University community, you are expected to know and abide by these policies, which detail definitions of violations, processes for reporting violations, sanctions and appeals.

12 Student Outcome Assessment

In order to maintain quality academic offerings and to conform to accreditation requirements, SLU-Madrid regularly assesses its teaching, services and programs for evidence of student learning. For this purpose, SLU-Madrid keeps representative examples of student work from all courses and programs on file, including assignments, papers, exams, portfolios and results from student surveys, focus groups and reflective exercises. Copies of your work for this course may be kept on file for institutional research, assessment and accreditation purposes. If you prefer SLU-Madrid not to retain your work for this purpose, you must communicate this decision in writing to your professor.

13 Title IX Statement

Saint Louis University and its faculty are committed to supporting our students and seeking an environment that is free of bias, discrimination, and harassment. If you have encountered any form of sexual misconduct (e.g. sexual assault, sexual harassment, stalking, domestic or dating violence), we encourage you to report this to the University. If you speak with a faculty member about an incident of misconduct, that faculty member must notify SLU's Title IX deputy coordinator, Marta Maruri, whose office is located on the ground floor of Padre Rubio Hall, Avenida del Valle, 28 (mmaruri@slu.edu; 915-54-5858, ext. 213) and share the basic fact of your experience with her. The Title IX deputy coordinator will then be available to assist you in understanding all of your options and in connecting you with all possible resources on and off campus.

If you wish to speak with a confidential source, you may contact the counselors at the SLU-Madrid's Counseling Services on the third floor of San Ignacio Hall (counselingcenter-madrid@slu.edu; 915-54-5858, ext. 230) or Sinews Multipletherapy Institute, the off-campus provider of counseling services for SLU-Madrid (www.sinews.es; 917-00-1979). To view SLU-Madrid's sexual misconduct policy and for resources, please visit the following web address:<http://www.slu.edu/Documents/Madrid/campus-life/SLUMadridSexualMisconductPolicy.pdf>.