

Instructor: Stephan Siegel
Office: PCAR 430
Phone: +1 (206) 543 0784
Email: ss1110@uw.edu
Web: <http://faculty.washington.edu/ss1110/>

Office Hours: By appointment
Day and Time: TTh 10:30 am – 12:20 pm
Class Room: PCAR 395
Course Web Site: Canvas

Teaching Assistant: Harvey Cheong, harveyc@uw.edu

Course Description

Companies engaging in cross-border business as well as investors allocating capital globally face important financial questions beyond those found in a purely domestic (single country) setting. This course aims at providing the necessary understanding and tools to evaluate, finance, and manage international business and investment activities. While emphasis will be on the practical application of techniques and concepts, we will also study underlying economic and institutional forces.

In the context of international finance, understanding foreign exchange rates is crucial. Therefore, this course begins with an overview of the macroeconomic forces that determine exchange rates. We then examine the challenges for firms created by unexpected changes in foreign exchange rates and how, if at all, firms should manage their exposure to currency fluctuations.

Next, we broaden our focus and study how to discount non-USD cash flows, accounting for international differences in inflation, taxation, and risk.

We then turn to financing decisions and show how firms can use global capital markets to lower their financing costs.

Finally, we examine the opportunities of global investing from the perspective of an institutional investor.

Course Objective

The course extends many topics in finance to an international setting. It is designed to expose students to questions they will likely encounter in careers in corporate finance as well as investment banking or asset management. The objective is to introduce a number of fundamental concepts and ideas and apply them, at least as a starting point, when solving real-world problems.

Course Format

The course combines lectures with several business cases and real world applications.

Course Material

- Required: Course Pack available at the University Bookstore
The course pack (**CP**) contains the required readings as well as cases. All material is organized by class (see the course outline below).
- Required Access: Canvas
I will post additional reading material on Canvas. I will also post my lecture notes, assignments, tasks (see below) and case-relevant material on Canvas.

Prerequisites

You should be familiar with the content typically covered in the following courses:

- FIN 502, in particular discounted cash flow valuation
- QMETH 500, in particular the concepts of mean, variance, covariance, correlation, and regression
- BECON 501

You should also be comfortable using Excel to manipulate data, to calculate means, variances, covariances, and correlations as well as to run a simple OLS regression using the Data Analysis ToolPak.

Requirements

I expect that you come prepared to each class. It is *crucial* that you prepare the case or data analysis that we will discuss during a given session. I routinely call on students during case discussions and expect that everyone is prepared to participate in the discussion. I also *recommend* that you read the assigned reading material, but I will not hold you responsible for the content of the readings. The readings are selected to complement my lectures and offer you an additional resource for assignments and case studies.

I will assign six tasks that you should complete before class. Tasks are designed to expose you to details of a given topic or a case. They require material that you are already familiar with and *material that is new*. Tasks are hence more like real-world problems rather than traditional assignments. I recommend that you work on these tasks in groups (of up to three students – no exceptions). Four of the six tasks will be graded. These tasks are due *at the beginning of the class* (see the course outline below for details). If you cannot make it to class, you must email me your task solution before class. Please hand in *one print-out per group*. Also make sure the names of all group members are on the first page of your solution.

Finally, please remember that even though form without substance is meaningless, form still matters. You should prepare all graded material for this course in a form that meets professional standards: This includes dating any material, numbering pages, labeling graphs and tables, referencing sources, and, most importantly, expressing yourself in a concise manner.

Class participation is an important part of this course. You can obtain participation credit in several ways; for example, by asking and answering questions during lecture classes, by presenting your solution to a task or case study, by volunteering for one of the topics of the week, or by contributing to the discussion forum on Canvas.

I ask you to keep track of your participation using the self-evaluation form (see below) that I will collect from you at the end of the quarter to complement my own notes on your participation.

Case discussions are an important part of this course. To help you with the preparation of a case, the course pack contains a number of questions for each case. At the beginning of class, you should be in a position to describe the set-up of the case, the main questions at hand, the possible solutions, and the reasons why you favor one solution over another. If you are not sufficiently prepared, you should alert me before class, as I will call on individual students during case discussions.

The midterm exam will be an in class exam held during a regular class meeting. The exam will be closed book, but you are allowed to bring a single handwritten “cheat-sheet” (letter sized, two sided). If you cannot take the midterm exam on the scheduled date, please make sure you discuss this matter with me in advance.

To help you study the material for the midterm exam, I will provide you with two homework assignments. You can again work in groups of up to three students. If you do, please turn in one copy per group.

Instead of a final exam, I will ask you (in groups of up to three) to write a short paper (up to 5 pages of double-spaced text, up to 5 pages of appendix, 1 page of references) on an international finance topic. We will discuss the possible topics at the beginning of the quarter. The paper is due in class on June 2, 2016 and each team will give a short presentation in the last class.

Grading

Grades will be based on the following requirements:

Class Participation:	25.0%
Tasks (5% for Tasks 3, 5, and 6; 10% for Task 4):	25.0%
Homework Assignments (two):	10.0%
Midterm Exam:	20.0%
Short Paper:	20.0%

The target median grade for this course is in the range of 3.4 to 3.6.

Academic Integrity

Academic integrity is essential to research and teaching at the University of Washington. Out of respect and fairness to everyone, I will not accept any violation of academic integrity, including cheating, attempted cheating, plagiarism, or lying. Submissions must reflect your own ideas and words; all contributions of others must be attributed properly. It is explicitly forbidden to seek or use solutions to any of the assignments in this class from students in other classes or programs or from students who have taken this class in previous years.

Feedback

It is important to me to know about any concerns or questions you might have. I also appreciate any comments on the course, in particular about lectures or cases that you find particularly helpful or not helpful at all. Please feel free to stop by my office or send me an email if you would like to talk to me.

Course Outline

The course outline is subject to change depending on actual progress. Please note the date for the midterm exam will not change. The exam will only cover the material actually covered in class by the time of the exam. As necessary, I will post updated course outlines on Canvas.

Class	Date	Day	Topic
1	29-Mar	Tue	Course Overview & Introduction Read CP: Syllabus CP: Eun and Resnick, Chapter 3 (62 - 81)
EXCHANGE RATES AND THE MACRO ECONOMY			
2	31-Mar	Thu	Demand and Supply for Foreign Exchange (FX) <i>Prepare</i> CP: Case: Dealing with Capital Flows: Thailand in 2006 Read CP: Buffett, Fortune, 2003 CP: Latest BEA release on U.S. current account
3	5-Apr	Tue	Foreign Exchange (FX) Rates: Spot and Forward Markets Review Mean, Standard Deviation, Correlation, Normal <i>Prepare</i> Task 1 Read CP: Sercu, Chapters 3 & 4 (69 - 97; 115 - 128)
4	7-Apr	Thu	International Parity Conditions <u>Due</u> Assignment 1 Read CP: Eun and Resnick, Chapter 6 (140 - 158)
5	12-Apr	Tue	Testing Parity Conditions Review Linear Regression Models <i>Prepare</i> Task 2 Read CP: The Economist, Carry on speculating CP: The Economist, Carry on trading
6	14-Apr	Thu	FX Forecasting and FX Investing Read CP: Eun and Resnick, Chapter 6 (158 - 166, 172)
EXCHANGE RATE EXPOSURE AND RISK MANAGEMENT			
7	19-Apr	Tue	Transaction Exposure Review Basic Option Pricing <u>Due</u> Assignment 2 <i>Prepare</i> CP: Case: Hedging Currency Risk at AIFS Read CP: Shapiro, Chapter 11.1 - 11.4 (385 - 407)
8	21-Apr	Thu	Competitive Exposure <i>Prepare</i> CP: Case: Foreign Exchange Hedging Strategies at GM: Competitive Exposure Read CP: Shapiro, Chapter 11.5 - 11.7 (407 - 426)
9	26-Apr	Tue	To Hedge or Not to Hedge <u>Due</u> Task 3 Read CP: Bekaert and Hodrick, Chapter 17 (625 - 647)
10	28-Apr	Thu	Midterm Exam Only material covered so far will be expected

Class	Date	Day	Topic
-------	------	-----	-------

CROSS-BORDER VALUATION

- | | | | |
|----|--------|-----|--|
| 11 | 3-May | Tue | Discounting Cross-Border Cash Flows
Review Capital Budgeting and Discounted Cash Flow Analysis
<i>Prepare</i> CP: Case: Groupe Ariel S.A.: Parity Conditions and Cross-Border Valuation |
| 12 | 5-May | Thu | Generating Value Globally
Read CP: McKinsey, Chapter 21 (605 - 620) |
| 13 | 10-May | Tue | Cross-border Valuation
<u>Due</u> Task 4
<i>Prepare</i> CP: Case: Cross-Border Valuation: Prince S.A. |
| 14 | 12-May | Thu | Cost of Capital for Foreign Investments
Review Systematic Risk and Cost of Capital
Read CP: McKinsey, Chapter 22 (634 - 652) |
| 15 | 17-May | Tue | Investing in Emerging Markets
<u>Due</u> Task 5
<i>Prepare</i> CP: Case: Valuation in Emerging Markets: Dow Chemical's Bid for PBB in Argentina |

CROSS-BORDER FINANCING

- | | | | |
|----|--------|-----|--|
| 16 | 19-May | Thu | Global Capital Markets
CP: Fabozzi, Chapter 18 (393 – 408) |
| 17 | 24-May | Tue | Cross-border Debt Financing
<u>Due</u> Task 6
<i>Prepare</i> CP: Case: Carrefour S.A.
Read CP: Eun and Resnick, Chapter 14 (348 - 361) |
| 18 | 26-May | Thu | Cross-Listings and ADRs
<i>Prepare</i> CP: Case: Nestlé and Alcon – The Value of a Listing
Read CP: Shapiro, Chapter 15 (540 - 543) |

INVESTING GLOBALLY

- | | | | |
|----|--------|-----|---|
| 19 | 31-May | Tue | Investing Globally
Read CP: Shapiro: Chapter 15 (524 – 549)
CP: Credit Suisse Global Investment Returns Yearbook (2010): Economic Growth |
| 20 | 2-Jun | Thu | Short Paper Presentations
<u>Due</u> Short Paper |