

INTERAMERICAN UNIVERSITY OF PUERTO RICO
METROPOLITAN CAMPUS
FACULTY OF ECONOMIC AND ADMINISTRATIVE SCIENCES
MBA PROGRAM

SYLLABUS

- I. Course Title** : **INTERNATIONAL BUSINESS FINANCE**
- Code and Number** : **BADM 6200**
- Credits** : **3**
- Academic Terms** :
- Professor** :
- Office Hours** :
- Telephone** :
- E-Mail Address** :

II. Description

Study of the structure and functioning of foreign currency markets and of the factors that determine the exchange rates of currencies. Analysis of investment decision-making and the financing of companies and institutions from a global perspective.

III. Objectives

UNIT I

Terminal

Learn and be able to analyze the factors and variables that define the conceptual framework for financial decision-making in a multinational corporation.

Capacitants

- a. **Understand the evolution of the Multinational Corporation (MNC) and the benefits of international diversification.**

- b. Understand the strategies followed by MNC's in their global expansion.**
- c. Understand the development and evolution of the major financial markets (New York and London) and their convergence into a truly global financial system.**
- d. Gain a basic understand of the current global financial crisis.**

UNIT II

Terminal

Learn and be able to analyze the factors which determine equilibrium pricing levels for currency exchange rates, and the interrelationships among the key global currency markets (Dollar, Euro, Yen).

Capacitants

- a. Understand the theoretical models explaining exchange rate equilibrium**
- b. Be able to calculate exchange rate changes.**
- c. Understand the role of the Central Bank in managing exchange rate policy and the economic policy options available to it.**
- d. Understand the basic monetary and fiscal policies which led such countries as, Mexico, Brazil, Russia and Argentina to currency crises during the past 15 years.**
- e. Understand the evolution of the international monetary system and the different types of exchange rate policies available to Central Banks.**
- f. Understand the key theoretical relationships between spot exchange rate, forward exchange rates, inflation rates and interest rates that result from international arbitrage.**
- g. Be able to calculate whether a currency is overvalued or undervalued utilizing key economic variables, such as, inflation rates, interest rates, spot rates and forward rates.**
- h. Understand the basic components of a country's Balance of Payments (BOP).**
- i. Understand the links between domestic economic policies and international flows of goods and capital as these become reflected in a country's Balance of Payments.**

UNIT III

Terminal

Be able to analyze a foreign market utilizing the Country Risk methodology from the standpoint of an MNC evaluating an investment decision.

Capacitants

- a. Be able to analyze the social, cultural, political and economic factors that affect the general level of risk in a country.**
- b. Be able to analyze an emerging market utilizing the Country Risk methodology and evaluate whether an investment is warranted in a given economic sector given the risk and growth opportunities available.**

UNIT IV

Terminal

Learn and be able to analyze exchange rate risk from the standpoint of economic, transaction and transaction risk.

Capacitants

- a. Understand translation and accounting foreign exchange exposure.**
- b. Understand the basic hedging strategies and techniques used by firms to manage their foreign exchange transaction and translation risks.**
- c. Understand economic and operational foreign exchange risk exposure.**
- d. Be able to analyze and structure international financial transactions with the objective of minimizing transaction, economic and operational foreign exchange risk is minimized through the use of appropriate hedging strategies.**

IV. Course Contents

Unit I

The Rise of the Multinational Corporation and International Financial Markets

In this unit we shall explore the rise of global Multinational Corporations and the competition among nations to attract their investment dollars. We shall also explore the role globalization has placed in the development of leading MNC's corporate strategy, and the various strategic options available to MNC's when entering a foreign market. Finally, we shall explore the major financial markets available to MNC's to fund their global expansion initiatives.

1. The Rise of the multinational corporation in the Post WWII era
2. The Globalization of Business and Finance
3. The process of Overseas expansion
4. Theory of the Multinational Corporation
5. The Strategy of the Multinational enterprise
6. Developing a global expansion strategy
7. The evolution of national capital markets into international financial centers (New York, London, Tokyo)
8. International and Regional multilateral development Banks
9. The rise of the Euromarkets
10. Euromarket Financial Instruments
 - a. eurocurrency
 - b. eurobonds
 - c. euronotes
 - d. euro-commercial paper
11. Review of global financial crisis (Mid- 2007 to present)

Required Readings

Shapiro, Alan C. Multinational Financial Management, 8th Edition, John Wiley & Sons, New Jersey, 2006, Chapter 1, 16, 12 and 13.

Unit #2

The International Financial Markets and the economic factors underlying equilibrium Foreign Exchange Rates

Description

In this section we shall study the evolution of the international monetary system, the role played by a country's Central bank and how the forces of demand and supply lead to an equilibrium exchange rate. We will also learn how to calculate currency appreciation or depreciation rates for a given time period.

Contents

1. Setting the equilibrium spot exchange rate
2. Asset Market Model of exchange Rates
3. Fundamentals of Central Bank Intervention
4. Equilibrium Approach to Exchange Rates
5. Overview of alternative Exchange Rate regimes
6. Brief History of the International Monetary System
7. Emerging Market Currency Crises
8. Arbitrage and the Law of One Price
9. Five (5) parity conditions which stem from Law of One Price
 - a. Purchasing Power Parity (PPP)
 - b. Fisher Effect (FE)
 - c. International Fisher Effect (IFE)
 - d. Interest Rate Parity (IRP)
 - e. Unbiased Forward Rate (UFR)
10. Currency Forecasting
11. Balance of Payments Accounting Categories
12. Linkages between Balance of payments and state of an Economy
13. Coping with current-account deficits

Required Readings

Shapiro, Alan C. Multinational Financial Management, 8th Edition, John Wiley & Sons, New Jersey, 2006, Chapter 2, 3, 4 and 5.

Unit # 3

Country Risk Analysis

Description

Provide students with an introductory overview of the key factors utilized to establish sovereign country risk.

Contents

1. Defining Country Risk
2. Measuring Political Risk
 - a. political stability
 - b. economic factors
 - c. subjective factors
3. Overview of key economic and political variables underlying Country Risk
4. Country Risk Analysis in International Banking

Required Readings

Shapiro, Alan C. *Multinational Financial Management*, (8th Edition), John Wiley & Sons, New Jersey, 2006, Chapter 6

Unit # 4

Managing Foreign Exchange Risk

Description

Overview of alternate foreign exchange exposures, such as currency translation and transaction exposure. Overview of current currency translation accounting methods prescribed by the Financial Accounting Standards Board (FASB). Basics of developing a hedging strategy to manage currency exposure. Overview of economic vs. exchange risk exposure. Understand differences between operating exposure vs. transaction exposure.

Contents

1. Overview of Alternate Measures of Foreign Exchange exposure
 - a. Translation exposure
 - b. Transaction exposure
 - c. Operating exposure
2. Designing a Hedging Strategy

3. Managing Translation exposure
4. Managing Transaction exposure
5. Foreign Exchange risk and economic exposure
6. The economic consequences of exchange rate changes
 - a. Transaction exposure
 - b. Operating exposure
7. Identifying economic exposure
8. Calculating economic exposure
9. An operational measure of Exchange Risk
10. Managing Operating exposure

Required Readings

Alan C. Shapiro, *Multinational Financial Management*, (8th Edition), John Wiley & Sons, New Jersey, 2006, Chapter 10, and 11.

V. Student Evaluation

Students shall be expected to complete all the required readings, homework problems, discussion forums (where applicable), and projects. In those cases Where the student has a weak background in certain subject matters, background readings will provide the necessary conceptual foundations required.

Students will be expected spend a minimum of 8 hours per week. This would be equivalent to 4 hours of weekly classroom time plus four hours of preparation time.

- a. Discussion Questions
Units # 1, 2 .
- b. Homework Problems
Units # 2, and 4.
- c. Tests : There shall be two (2) partial tests

First Test (three parts) : Unit 2 (Chapters 2, 3, and 4)
Second Test (two parts) : Unit 4 (Chapters 10 and 11)
- d. Country Risk Analysis (Unit #3)

The grades shall be assigned on the following basis:

Discussion Forums	10%
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Homework Problems	30%
Two (2) Written Tests	30%
Country Risk Analysis	30%

VI. Resources and Learning Materials

a. Textbook:

Alan C. Shapiro, Multinational Financial Management, 8th edition, John Wiley & Sons, Inc. , 2006

The textbook may be purchased at any of the following :

Metrolibros- Inter Metro Campus Bookstore
Telephone: (787) 250-1912 ext. 2433 or (787) 751-7872 .

Online

www.wiley.com

www.amazon.com

b. Reference Books

Bruno Solnik, International Investments, 4th edition, Pearson Addison Wesley, 1999

J.J. Stephens, Managing Currency Risks using Financial Derivatives, John Wiley and Sons, 2000

John D. D., and Lee H. Radebaugh, International Business: Environments and Operations, 9th edition, Prentice Hall, 2000

K. Thomas Liaw, Capital Markets, Southwestern, 2004

Paul P. K. and Maurice Obstfeld, International Economics: Theory and Policy, 6th edition, Addison Wesley, 2003

R. Glen Hubbard, Money, the Financial System and the Economy, 3rd edition, Addison Wesley, 2000

Reilly, Frank K., Investment Analysis Portfolio Management, 7th Edition, Southwestern, Ohio, 2003

Richard A. B., and Stewart Myers, Principles of Corporate Finance, 7th edition, McGraw Hill, 2002

Roger L. M., and David D. Van Hoose, Macroeconomics: Theories, Policies and International Applications, 3rd edition, Southwestern, 2004

c. Articles

“Accounting of the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, Statements of Financial Accounting Standards No. 8”, Stamford Conn.: Financial Accountings Standards Board , Oct. 1975.

Aliber, Robert A. and Stickney, Clyde P. “ Accounting Measures of Foreign Exchange Exposure: The Long and Short of It. , The Accounting Review , Jan. 1975, pp.44-57.

Calvo, Guillermo and Carmen Reinhart.”Fear of Floating”, Quarterly Journal of Economics, May 2002, pp.370-408

DeSantis, Giorgio and Bruno Gerard. “ International Asset Pricing and Portfolio Diversification with Time Varying Risk”, Journal of Finance, 1997, Num. 52, pp 1881-1913

Humpage, Owen and William Osterberg. “Why Intervention Rarely Works “, Federal Reserve Bank of Cleveland Economic Commentary, Feb. 2000.

Kwaller, J.G. “Comparing Futures and Formats for Managing Currency Exposures”, Chicago: Chicago Mercantile Exchange, 2000

Mann, Catherine L. “Is the U.S. Current Account Deficit Sustainable?” Finance & Development, IMF March 2000, pp 42-45

Neely, Christopher. “ International Interest Rate Linkages”, Federal Reserve Bank of St. Louis International Economic Trends, August 2001.

d. Learning Tools

Students will be utilizing calculators (eg. Hewlett Packard 12-C) with the following financial functions : NPV,IRR, STD. DEV. .
Will also utilize financial spreadsheets , such as, Excel.

VII. University Policies

a. Special Accommodations

Students who require special assistance must request these services at the beginning of the course as soon as they notice that they need help. Students can access this service with Professor Jose Rodriguez, Coordinator of Students with Special Needs at the Guidance and Counseling Office on the first floor at Metro's Student Center.

b. Plagiarism

Plagiarism, dishonesty, fraud and any other type of manipulation or inappropriate behavior related with academic performance are unacceptable in our institution. Disciplinary actions will be taken on students found guilty of such practice as established in Chapter V, Article 1, Section B.2 of the Student's Rules and Regulations Handbook.

<http://www.metro.inter.edu/servicios/documentos/reglamentosestudiantes2006>.

pdf

Inter has very strict regulations regarding plagiarism (using the ideas or words of others without giving proper credit), so it is important that you specifically read Chapter 5, Section B.2a. This section clearly explains what plagiarism is. In addition, it explains the types of sanctions students are exposed to when they commit it.