

THE UNIVERSITY OF NEW SOUTH WALES



SCHOOL OF BANKING AND FINANCE

FINS3616 INTERNATIONAL BUSINESS FINANCE

SESSION 2, 2003

Objective

This course provides students with the basic theoretical and practical knowledge required for the management of financial functions of firms operating in several countries. This includes necessary theory and evidence basic to an understanding of international capital and foreign exchange markets. In particular, this course covers topics such as international diversification, foreign investment decisions, cost of capital for multinational corporations, foreign direct investment, financial and political risks, the role of multinational banks and the financial benefits of Euro-currencies and Eurobonds, short-term financing, and international equity markets. It is relevant to a broad range of professions including corporate treasury management, corporate finance, international securities trading and investment management. The general emphasis is on the identification and management of risk relating to exchange rate fluctuations and government policy changes.

Web Page

This subject has a web site (<http://banking.web.unsw.edu.au/fins3616/>). Lecture overheads and solutions to tutorial questions will be downloadable from this site. Class announcements will also be posted to this site. To access the site, you need a valid Unipass number if you are using a campus wide PCs. If you wish to access the site from your home or work PC, you will need to connect to the University Dial-Up System (UDUS). Details about Unipass and UDUS may be obtained from www.disconnect.unsw.edu.au/old-index.html.

Lectures

There will be two lecture streams each week. The times and locations are as follows:

Monday	17:00 – 19:00	Webster B
Tuesday	14:00 – 16:00	KBT

Lecturer

Dr. Alfred Yawson	Q3067	Ext 4900	a.yawson@unsw.edu.au
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Tutor in charge

Lucie Ghosh	Q3044	Ext 5872	l.ghosh@unsw.edu.au
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Tutorials

Students **MUST** enroll in a tutorial stream. Please consult the School of Banking and Finance website for the locations and times of the available tutorial streams. The Tutorial Allocation System (TAS) will be available on Monday and Tuesday of Week 1 to enable changes, additions and deletions (please consult the Faculty of Commerce and Economics). After the TAS system has closed, changes will be made **ONLY** for documented University conflicts.

Important to Note: Students will only receive class participation credit for the tutorial they are officially enrolled in. It is up to the individual student to ensure that they are officially enrolled in the tutorial they are attending.

Note: Teaching staff will only respond to emails with reference to sender's student name and student number.

Assessment

The assessment scheme for this course is as follows:

Assignment 20% (optional - can be waived for an equal increased weighting on mid session and final exams).

Tutorial Participation 10% (only students who attend the correct tutorial can be rewarded).

Mid-Session Examination 45% or 35%

Final Examination 45% or 35%

Mid-Session and Final Examination

A Mid-Session Examination will be held in week 8. Details will follow shortly. It will cover lecture materials and the corresponding tutorials from weeks 1 to 6. Attendance is

compulsory. Please see note on supplementary examination and application for special consideration. The supplementary examination for the mid-session examination, if any, will be held during the supplementary examination period for the first semester. **Please note that there will be no lectures or tutorials during the week of the mid-session examination.** The final exam will be based on the remaining weeks' topics. Details regarding the mid-session and end of session exams will be posted on the subject website.

Special Consideration

All requests for special consideration must be submitted to the Registrar with supporting documentation within seven days of the related examination or the due date of the related assignment. A copy of the application form and its supporting documentation must also be submitted to the **lecturer-in-charge, Dr. Alfred Yawson**. Requests on medical grounds will not be considered unless Section B of the application form is duly stamped and signed by a registered medical practitioner and with clearly visible contact phone number. In accordance with the "note" on page 30 of the *Student Guide*, **students will not be granted supplementary assessment if they have attained a pass or better from completed assignments.** Supplementary examination will only be granted in exceptional cases. Specifically, the student must be able to demonstrate a serious illness or a serious accident injury evidenced by a medical certificate indicating physical inability to attend. Students being considered for special consideration are responsible for checking on the progress of the application. The students for whom supplementary assessment has been granted are responsible for learning the time and location of that assessment.

Tutorials

Tutorials will generally consist of two types of questions. First, a number of conceptual questions covering the specific topic will be set. These questions are designed to test and assess your understanding of the topic area. Second, a number of practical/problem questions will be set. **These questions will not always follow directly from lectures.** Solutions to these questions will be discussed in detail in tutorials. Students will be expected to lead the discussion of these questions and must prepare their answers before the tutorial time. Students must keep a **subject work file** which contains their tutorial work. This will be inspected from time to time by the tutor who will record that tutorial work is being done. A tutorial problem set schedule is attached in the appendix. Note that it may not be possible to discuss all of the conceptual questions in the tutorial as it is a priority to cover the problem questions. Students must however fill in the blanks by re-reading the chapters and completing the conceptual questions in their own time, recording this in their subject work folder.

Assignment (20%)

There is one optional assignment that can be submitted for this course. The assignment can be completed in groups of up to 3 students and will consist of two parts. The first part is a 2,000 word essay detailing the experience of the Australian Dollar from 01/07/2003 to 28/09/2003, plus an analysis and forecast of the Australian Dollar over the

next 3 weeks. This first part is due on Friday week 11. The second part is a 1,000 word limit essay consisting of a comparison of your forecast with realized Australian Dollar value over the forecast period. This second part is due on Friday week 14.

It is expected that students will detail (in chronological order) the major political, financial, economic or other events which shaped the course of the AUD over this period. Students will also be expected to explain, relying on theories taught in this course and in previous courses, why particular events affected the AUD the way they did. The reasons for forecast errors and additional discovery should also be explained.

Students must notify their tutor no later than their tutorial in week 3 if they want to undertake the assignment. Students who elect to undertake the assignment will **NOT** have the option of changing their minds and will receive zero if no assignment is submitted. Late submissions will not be accepted.

In making their decisions, students should keep in mind that in the event of any application to alter their final mark (e.g. applying for special consideration or if the student fails the subject) we will take into account your performance in coursework throughout the session. In this regard it would be advantageous to have undertaken the assignment and performed well. **This is a less risky strategy.**

Textbooks

Required:

Butler, K. (2000). *Multinational Finance*, South Western College Publishing. Second Edition. This book is available from the UNSW bookshop located near the Quadrangle.

Recommended:

Eiteman, D.K., A.I. Stonehill and M.H. Moffett (2001) *Multinational Business Finance*, 9th Edition, Addison-Wesley.

Other Useful Reference Texts:

Buckley, A. (1992). *'Multinational Finance'*, Prentice-Hall Australia.

Eaker, M., F.J. Fabozzi, and D. Grant (1996). *'International Corporate Finance'*, Dryden Press.

Eun, C.S. and Resnick B.G. (2001). *'International Financial Management*, 3^d Edition, McGraw-Hill.

Moosa, I. A. (1998). *'International Finance'*, Irwin, McGraw-Hill.

Reilly, F.K., and K.C. Brown (1997) *'Investment Analysis and Portfolio Management'*, 5th Ed., Dryden Press.

Shapiro, A.C. (2002). *'Multinational Financial Management'*, 7th Edition, Wiley.

Solnik, B. (1996). *'International Investment'*, Third Edition, Addison Wesley.

Tutorial Problem Set Schedule

All questions are from end of chapter exercises in Butler. There is an expectation that students will engage in additional readings, as well as Butler. The conceptual questions are from the first set of questions 'Conceptual Questions', the problems questions are taken from the second set of 'Problems'. For the discussion questions students should at least prepare shorthand notes. For problems, students should prepare detailed answers. **If some of the conceptual questions cannot be covered in tutorials you must complete these in your own time and record them in your subject work folder.**

Lecture Topics and Required Reading

Week	PART I OVERVIEW AND BACKGROUND	Butler Ch.
1	Introduction	1
	World Trade in Goods and Capital and the International Monetary System	2
	PART II FOREIGN EXCHANGE AND EXCHANGE RATE DETERMINATION	
2	The Foreign Exchange and Euro-currency Markets	3
	International Parity Conditions	4
3	The Nature of Currency Risk	5
	PART III THE MULTINATIONAL CORPORATION'S INVESTMENT DECISIONS	
	Multinational Corporate Strategy	6
4	Cross-Border Capital Budgeting	7
	Taxes and Multinational Corporate Strategy	8
5	Country Risk	9
	Real Options and Cross-Border Investment	10
6	Corporate Governance and International Market for Corporate Control	11
	Introduction to Multinational Treasury	12
	PART IV THE MULTINATIONAL CORPORATION'S FINANCIAL DECISIONS	
7	The Rationale for Hedging Currency Risk	13
	Transaction Exposure to Currency Risk	14
8	Mid-Session Examination	
9	Operating Exposure to Currency Risk	15
	Translation Exposure to Currency Risk	16
10	Multinational Capital Structure and Cost of Capital	17
	PART V DERIVATIVE SECURITIES FOR CURRENCY RISK MANAGEMENT	
	Currency Futures and Futures Markets	18
11	Currency Options and Options Markets	19

	Currency Swaps and Swaps Markets	20
	PART VI INTERNATIONAL CAPITAL MARKETS AND PORTFOLIO INVESTMENT	
12	A Tour of the World's Capital Markets	21
	International Portfolio Diversification	22
13	International Asset Pricing	23
	Managing an International Investment Portfolio	24
14	Review of Course	

Tutorial Questions

	End of Chapter	Conceptual Qs	Problem Qs
Tute 1 (Week 2)	1 2	1 to 7 1 to 9	
Tute 2 (Week 3)	3 4	1 to 5 1 to 6	1,3,6 2,6,11
Tute 3 (Week 4)	5 6	1 to 12 3,4,5,8	1,2,3
Tute 4 (Week 5)	7 8	1 to 3 1 to 5	2 1
Tute 5 (Week 6)	9 10	1 to 12 1 to 10	1 1
Tute 6 (Week 7)	11 12	1 to 11 1 to 11	2 1,2
Tute 7 (Week 9)	13 14	1 to 3 1,3,4,5,6	1,3,4 4
Tute 8 (Week 10)	15 16	1 to 9 1 to 4,11	1,2,3 1
Tute 9 (Week 11)	17 18	1 to 9 1 to 6	3,6 1,5
Tute 10 (Week 12)	19 20	1 to 7 1 to 6	3,5 1
Tute 11 (Week 13)	21 22	1 to 10 1 to 10	4 8,10,11
Tute 12 (Week 14)	23 24	1 to 15 1 to 8	2,4 2,3