

# THE UNIVERSITY OF NEW SOUTH WALES



## SCHOOL OF BANKING AND FINANCE

### FINS 5516 INTERNATIONAL CORPORATE FINANCE

#### SESSION 2, 2004

#### 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, costs 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://webct.edtec.unsw.edu.au/>)). 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](http://www.disconnect.unsw.edu.au/old-index.html).

## **Lectures**

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

Wednesday	15:00 – 18:00	ME 402
Thursday	18:00 – 21:00	CLB 6

<b><u>Lecturers</u></b>	<b><u>Office</u></b>	<b><u>Ext</u></b>	<b><u>Email</u></b>
Mr. Matthew Roope (LIC)	Q3043	TBA	<a href="mailto:mroope@bigpond.net.au">mroope@bigpond.net.au</a>
Mr. Kwang-Won Lee	Q3043	TBA	<a href="mailto:kw.lee@unsw.edu.au">kw.lee@unsw.edu.au</a>

## **Staff Consultation Hours**

Mr. Matthew Roope (LIC) Thursday 5:30-6pm, 9pm-9:30pm (I can be flexible with consultation times – please contact me if these do not suit)  
Mr. Kwang-Won Lee Wednesdays 1-3pm (or by appointment)

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

## **Workload Expectations**

It is expected that you will spend at least ten hours per week studying this course. This time should be made up of reading, research, working on exercises and problems, performing computer tasks and attending classes. In periods where you need to complete assignments or prepare for examinations the workload may be greater.

Over commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

## **Assessment**

The assessment scheme for this course is as follows:

Mid session exam	50%
Final Examination	50%
Total	100%

## **Education Development Unit**

Additional learning support, tailored to the needs of FCE students, is available from the Education Development Unit (EDU) in the Faculty. The EDU offers a range of services for FCE students including:

- Academic skills workshops run throughout the session;
- Printed and on-line study skills resources e.g. referencing guide, report writing and exam preparation;
- A drop-in resource centre containing books and audio visual material that can be borrowed;
- A limited consultation service for students with individual or small group learning needs.

More information about the EDU services including on-line resources, workshop details and consultation request forms are available from the EDU website.

### **EDU contacts and location**

EDU Web: <http://education.fce.unsw.edu.au>

EDU Location: Room 2039, Level 2 Quadrangle Building

EDU services are free and confidential and are available to students of the Faculty of Commerce and Economics.

### **Other UNSW support**

In addition to the EDU services, the UNSW Learning Centre provides academic skills support services for students. The Learning Centre is located on Level 2 of the Library and can be contacted by Phone: 9385 3890 or through their website: <http://www.lc.unsw.edu.au/>. Students experiencing problems of an academic or personal nature are encouraged to contact the Counselling Service at UNSW. This service is free and confidential and run by professional counsellors. The Counselling Service is located on Level 2, Quadrangle East Wing, and can be contact on 9385 5418.

### **Academic Misconduct**

Attention is drawn to the following extract from the University of New South Wales Calendar “Procedures”: Students are reminded that the University regards academic misconduct as a very serious matter. Students found guilty of academic misconduct are usually excluded from the University for two (2) years. Because of the circumstances in individual cases, the period of exclusion can range from one session to permanent exclusion from the University. The following are some of the actions that have resulted in students being found guilty of academic misconduct in recent years:

1. Taking unauthorised materials into an examination;
2. Impersonation in an examination;
3. Permitting another student to copy answers in an examination;
4. Exchanging notes between students in an examination;
5. Failing to acknowledge the source of material in an assignment;
6. Plagiarism;

7. Submitting work for assessment knowing it to be the work of another person;
8. Improperly obtaining prior knowledge of an examination paper and using that knowledge in the examination;
9. Removing an examination paper from an examination where it is specified that the paper is not to be retained by the student.

### **Acknowledgment of Sources**

Students are expected to acknowledge the source of ideas and expressions used in submitted work. To provide adequate documentation is not only an indication of academic honesty but also a courtesy enabling the marker to consult with sources with ease. Failure to do so may constitute plagiarism, which is subject to a charge of academic misconduct.

### **Attendance and Behaviour in Classes**

Under the University procedures, students are expected to be regular and punctual in attendance at all classes in which they are enrolled. All applications for exemption from attendance at classes of any kind must be made in writing to the Registrar. Note that there are provisions in these procedures for the School to refuse final assessment if students attend less than 80% of their classes. It is expected that students present themselves in lectures as responsible persons who contribute sensitively to the learning environment provided by fellow students and instructors. Disruptive behaviour in classes will **NOT** be tolerated as it 'impairs the reasonable freedom of other persons to pursue their studies or research or to participate in the life of the University'. In the event that the ambiance of the class is affected, student(s) will be cautioned once and will be asked to leave class in the case of repeat offences. Final assessment may also be refused and may lead to suspension from all or part of the University in severe cases.

### **Special Consideration**

Attention is drawn to the following extract from the University of New South Wales Calendar "Procedures": "Students who believe that their performance in a course, either during session or in an examination, has been adversely affected by sickness or any other reason should inform the Registrar and apply for special consideration in the determination of their standing. The application must be made on the 'Application for Special Consideration' form available from the Student Centre. This application explains the specific information the University requires in order to make a decision. Such requests should be lodged as soon as practicable after the occurrence and in any event no more than three working days after the final examination in a course." To be eligible for special consideration the student must notify the lecturer in charge **prior to** an examinable event to explain their situation and intentions. In addition, the student must carefully follow **all** procedures listed for special consideration as explained in the *Student Guide* (pp. 28-31). Failure to comply will result in an invalid application for consideration. Among other items, a photocopy of all material supporting an application for special consideration, as lodged with the Registrar, must also be provided to the

**Lecturer-in-charge** within three (3) days of any event for which special consideration is sought. Additional assessment will not be granted for students attaining a pass in the course. It is the students' responsibility to consult the website and notice boards to determine the outcome of their application.

**Students should be aware that only major illnesses constitute eligible grounds for special consideration ('minor' ailments are not eligible grounds). Documentation of hospital admission should accompany any request for special consideration.**

Students are expected to complete their work in a timely manner so that an illness in the last few days will not jeopardise the submission of their assignment or participation at an exam. Such illness will not constitute grounds for special consideration. Similarly, deadlines for other courses and work requirements do not constitute sufficient grounds for special consideration. Students must meet the 80% attendance requirement and separately passing the tutorial component of the course to be eligible for special consideration and further assessment.

**Students who find themselves facing long term issues which are affecting their studies need to address these early in session.** The university has many avenues for support and assistance in decisions about considerations affecting studies. Similarly, you need to notify the lecturer and your tutor early if you find yourself in a long term problematic situation.

### **Supplementary Examinations**

If a student is prevented from taking an examination due to special circumstances beyond their control, an application for special consideration may be lodged; however, there is **NO** guarantee that a supplementary examination will be provided. Applications are evaluated by committee after the final examination period. Students sitting the original exam are generally precluded from also sitting a supplementary exam. If a student is granted a supplementary examination but does not attend that supplementary examination, he/she will not be granted further assessment.

**NOTE:** It is a student's responsibility to hold themselves available for the possibility of a supplementary examination. All supplementary examinations may contain an **oral** component where student responses to questions/problems are evaluated by a committee of finance lecturers.

### **Textbooks**

*Required:*

Butler, K. (2004). Multinational Finance, South Western College Publishing. Third 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*, 9<sup>th</sup> Edition, Addison-Wesley.

Moosa, I. A. (2004). *International Finance: An Analytical Approach*, Second Edition, McGraw-Hill, Australia

*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<sup>rd</sup> Edition, 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*, 7<sup>th</sup> Edition, Wiley.

Solnik, B. and Mcleavy D. (2004). *International Investment*, Fifth Edition, Addison Wesley.

## Lecture Topics and Required Reading

Note: There will be no lectures or tutorials in the week of the mid-session exam. Details and dates of the mid-session will be released during the first weeks of the course

Lecture	Subject	Butler Ch.
	<b>Part One Overview and Background</b>	
1	An Introduction to Multinational Finance	1
2	World Trade and the International Monetary System	2
	<b>Part 2 The International Financial Environment</b>	
2	International Financial Markets	3
3	Foreign Exchange, Eurocurrencies, and Currency Risk Management	4
3	The International Parity Conditions	5
	<b>Part 3 Derivative Securities for Currency Risk Management</b>	
4	Currency Futures and Futures Market	6
4	Currency Options and Options Market	7
5	Currency Swaps and Swaps Market	8
	<b>Part 4 Managing the Risk of Multinational Corporation</b>	
5	The Rationale for Hedging Currency Risks	9
6	Multinational Treasury Management	10
6	Managing Transaction Exposure to Currency Risk	11
7	Managing Operating Exposure to Currency Risk	12
7	Managing Translation Exposure to Currency Risk	13
8	Country Risk Management	14
	<b>Part 5 Valuation and the Structure of Multinational Operations</b>	
8	Cross-Border Capital Budgeting	15
9	Multinational Capital Structure and Cost of Capital	16
9	Taxes and Multinational Corporate Strategy	17
10	Real Options and Cross-Border Investment	18
10	Corporate Governance and the International Market for Corporate Control	19
	<b>Part 6 International Portfolio Investment and Asset Pricing</b>	
11	International Portfolio Diversification	20
11	International Asset Pricing	21
12	Managing an International Investment Portfolio	22
13	Revision	

## Tutorial Questions

<b>Tutorial</b>	<b>Butler End of Chapter</b>	<b>Conceptual Questions</b>	<b>Problem Questions</b>
Lecture 2	1	1 to 11	-
Lecture 3	2 3	1 to 9 1,3,6,8,11	- 4
Lecture 4	4 5	1,3,4,6,9,11 4,5,8,11,12	3,6,16 2,6,11
Lecture 5	6 7	1,4,5,6 1,3,4,6	1,5 3,5
Lecture 6	8 9	1 to 6 1,2,3	1,5 1,3,4
Lecture 7	10 11	3,5,10,11,14,15 1,3,4,5,6	1,2 4
Lecture 8	12 13	1,3,4,8,9 1,2,3,4,5,9,11	1,4 1,4
Lecture 9	14 15	1,2,3,9,10,11 1,2,3	1 2
Lecture 10	16 17	1,4,6,7,8,9,12 1,2,5	3,6 1
Lecture 11	18 19	2,3,5,8,9 1,2,4,5,6,7,10	1 2
Lecture 12	20 21	1,3,7,9,10,11 1,2,4,6,9,12,13,15	5,8,10 1,4
Lecture 13	22	1,2,3,6,7	1,2