THE COLLEGE OF NEW JERSEY
SCHOOL OF BUSINESS
DEPARTMENT OF FINANCE & INTERNATIONAL BUSINESS
FIN 340: INTERNATIONAL FINANCIAL MANAGEMENT

SYLLABUS, FALL 2010

<table>
<thead>
<tr>
<th>Professor:</th>
<th>Susan R. Hume, Ph.D.</th>
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<tbody>
<tr>
<td>Office:</td>
<td>219 Business Building</td>
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<td><a href="mailto:hume@tcnj.edu">hume@tcnj.edu</a></td>
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<tr>
<td>Office hours:</td>
<td>Mondays and Thursdays 12:30 -1:30 p.m., 6-7 p.m., &amp; Wednesdays by appointment</td>
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Course Description
A global approach to financial management. Topics include: financial structure in global markets; managing exchange rate risks and hedging; international capital budgeting; international arbitrage and parity.

Course Prerequisites: Fundamentals of Finance FIN201 and one course in statistics

Required Course Materials

2. *The Big Short by Michael Lewis*, 2010
3. Financial calculator and computer, access to the Internet and Microsoft Office.

Course Purpose

Welcome to the study of international finance. I invite you to explore these questions throughout this course:

- Why international financial management: and Why me? How does international finance expand my understanding of domestic finance?
- Why is it important to be a global thinker?
- What are the global financial markets and how do multinational firms, investors and governments operate internationally?
- How can the use of the Financial Learning Center and technology solve everyday business and personal investment problems?
• How can I effectively communicate and why is that important?

Today's firms, investors, and governments operate in a global environment where foreign exchange rates can be volatile and the financial markets worldwide are more integrated. Further, large multinational corporations (MNC) play an increasing role in the world economy today. The main focus of this course is on the multidimensional financial management of the MNC.

The major topics we explore are:
• the financial structure of global markets
• foreign exchange theory and markets
• tools to measure and manage exchange rate risks and exposures
• the effects of exchange rate changes on cash flow
• methods of raising international capital and financing the global firm
• capital budgeting valuation and international foreign direct investments

Course Learning Aims

The primary goals of this course are to examine and analyze financial decisions in the context of the MNC and to develop an in-depth understanding of the major international financial markets. The course includes two experiential activities – playing a currency trading game and analyzing a MNC and its global operations.

Our goals are to:

✓ Investigate the growth of multinational firms, with a focus on the second half of the 20th century when the MNC became the primary engine of growth of the global economy.
✓ Analyze the instruments traded and institutions active in the foreign exchange markets, the international money markets, and the international capital markets.
✓ Analyze the financial decision making of a MNC, with specific attention to foreign exchange risk management and the analysis of investment projects.
✓ Work as an analyst making investment decision recommendations on international firms.
✓ Create a cooperative learning environment.
✓ Understand and address the impact of the global financial crisis on you as a student, employee and investor.

Specific Learning Goals

At the completion of the course students will understand and apply these concepts:

1. How the market for foreign exchange is organized and how the spot and forward foreign exchange markets work.
2. The factors that influence the determination of the rate of exchange between two currencies.
3. The concept of foreign exchange risk.
4. How foreign exchange risk is measured
   a. On a transaction by transaction basis
   b. In its effect on the operating cash flows of the corporation

The College of New Jersey
5. How foreign exchange risk can be managed through currency derivatives and through other techniques.
6. Those factors that impact the cost of capital of the global firm.
7. How capital is obtained
   a. On the external (Euro-) money and debt markets,
   b. Through domestic and cross border issuances of equity.
8. How interest rate and currency swaps work to impact the capital structure of a firm.
9. The motivation for and techniques used in foreign direct investment.
10. The political risk that the global firm faces.

Evaluation and Grading

Evaluation and grading is a collaborative progress of both learning in and out of the class room in combination with teaching. One of your responsibilities as a student is to prepare problem sets, readings and cases before class. Homework will be collected as noted on the syllabus. Evaluations through homework, exams and presentations are done at regular intervals to facilitate learning.

Your grade in this class will be based on in-class exams (60%), a final project (30%) done in teams, and homework and class participation (10%). For each of these components, I will assign a letter grade and then take the weighted average letter grade as your overall grade. The final grade will not be separately curved. The course grade will be determined by exams and coursework with the weights shown below:

<table>
<thead>
<tr>
<th>Component</th>
<th>WTG</th>
<th>Date</th>
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<tbody>
<tr>
<td>Exam 0</td>
<td>5%</td>
<td>Monday, September 9</td>
</tr>
<tr>
<td>Exam 1</td>
<td>10%</td>
<td>Thursday, October 4</td>
</tr>
<tr>
<td>Exam 2</td>
<td>20%</td>
<td>Thursday, November 1</td>
</tr>
<tr>
<td>Group Project</td>
<td>30%</td>
<td>Thursday, December 2 and Monday December 6</td>
</tr>
<tr>
<td>Final Exam</td>
<td>25%</td>
<td>As scheduled by the college</td>
</tr>
<tr>
<td>Participation and</td>
<td>10%</td>
<td>Throughout the semester</td>
</tr>
<tr>
<td>Homework</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
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Attendance is critical and requires more than just being physically present in class. Seating will be assigned. Attendance requires giving effort to exercises/problems prior to class meetings and engaging in discussion and debate on critical questions in class. The engaged student comes to class equipped with a textbook, calculator or laptop, a notebook, and writing materials. Attendance also means showing positive behaviors. For example, answering or raising a relevant question with facts to support. Negative behavior is disruptive to fellow students and the instructor; some examples are talking with a friend, coming late, leaving early, using a cell phone, or otherwise doing things that distract. You
are allowed 1 "unexcused absence", which means you may miss one class without impacting your participation in class discussions and other activities that take place during class sessions. Perfect attendance will be rewarded with 5 points added to your participation in class discussions and homework.

There are no makeup exams. In the event that a student misses an exam for a valid documented personal or medical reason, then an exam will be scheduled at the convenience of the instructor.

Please review TCNJ's attendance and final examination policies on the web at http://www.tcnj.edu/~recreg/policies/attendance.html
http://www.tcnj.edu/~academic/policy/finalevaluations.html

There will be four exams during the semester. They will consist mostly of short-answer problems that relate to materials we have discussed in class. I have posted notes for Exam 0 which reviews key financial methods from FIN201 Fundamentals of Finance: time value of money, lump sum and annuity cash flows, cost of equity, cost of debt and cost of capital.

The final project will be to review the international operations of a preselected MNC and make a recommendation of whether or not your client planning for retirement should invest in this firm. You can work in teams of three or four and turn in one report per team. All team members will normally receive the same grade on the project. However, team members will be required to rate other team members as to the extent of their contributions. If all other team members agree that one team member has contributed significantly less, then the grade of the team member who shirked on the project will be reduced by up to one letter grade.

It's very important that you prepare for class in advance. I will spend at least 3 hours of preparation for each hour of class time, and you should plan to do the same. Some preparation should be done privately, but a lot of it should be done in groups. Get together and discuss the material before class among yourselves. Go to the library and financial learning center to gather the information and research the methods you need to solve problems. If you don't prepare you will miss a lot of what you can get out of this course. It's also very important that you speak out in class. Get actively involved. It's a chance to try out your ideas in a setting with relatively low risk.

The chart below describes the final letter grade.

<table>
<thead>
<tr>
<th>Letter Grade</th>
<th>Numerical Values</th>
<th>Description</th>
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<tbody>
<tr>
<td>A, A-</td>
<td>90.0 and higher</td>
<td>EXCELLENT. Work of consistently high standard, showing superior mastery of course material.</td>
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<td></td>
<td>A = 93 &amp; higher</td>
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<td></td>
<td>A- = 90 - 92.99</td>
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<table>
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<tr>
<th>Grade</th>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>B+, B, &amp; B-</td>
<td>80.0 to 89.99</td>
<td>DISTINCTLY ABOVE AVERAGE. Work of high quality showing strength in accuracy, understanding, and insight.</td>
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<tr>
<td>C+</td>
<td>73.3 to 79.99</td>
<td>AVERAGE. This grade implies familiarity with the content of the course and acceptable mastery of course material.</td>
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<tr>
<td>C</td>
<td>70.0 to 73.29</td>
<td>BELOW AVERAGE. Signifies work which in quality and/or quantity falls below the average acceptable standard for the course.</td>
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<tr>
<td>D+, D</td>
<td>60.0 to 69.99</td>
<td>Denotes a limited understanding of the subject matter, meeting only the minimum requirements for passing the course.</td>
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<tr>
<td>F</td>
<td>below 60.0</td>
<td>Indicates a deficiency in understanding of course material, and/or failure to complete requirements of the course.</td>
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**Homework**

All homework and presentations are submitted electronically on SOCs in your dropbox by the date and time required. (Midnight on the day of class, i.e. Monday assignments are due on Sunday at midnight). Some assignments also require hard copy where noted.

No late homeworks are accepted. Consult posted time table for details of due dates.

Over the course of the semester you turn in several documents. These are part of your final project. By requiring these intermediate deadlines, you will successfully stay current and not fall behind in the completion of the final project.

**Course Outline:**

- **Topic 1**
  - The International Financial Environment
    - Increasing importance of International Finance
    - Finance vs. International Finance
    - Major Components of International Financial Management
    - Careers in International Finance
    - Corporate Governance
  
**EXAM 0**

- **Topic 2**
  - Foreign Exchange Markets
    - Foreign Exchange Market: Spot and Forward Markets
      - Reasons and Significance
      - Market Mechanisms
    - Participants
    - Location
    - Instruments

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• Quotations
  • Speculation and Arbitrage
    ➢ Cross Rates
    ➢ Triangular Arbitrage

➤ Topic 3
Foreign Exchange Simulation Game
  • Objectives
  • Bank Members
  • Trading Rules
  • Recording a Transaction
  • Conclusions

➤ Topic 4
Current Financial Challenges
  • Credit Crisis 2007 – 2009
  • Financial Regulation

Exam 1

➤ Topic 5
The Determinants of Exchange Rates
  • Economic Fundamentals
  • International Parity Conditions
  • Purchasing Power Parity
  • Exchange Rate PassThrough
  • Interest Rate Parity – Covered and
  • Uncovered Arbitrage
  • The need to manage exchange risk

➤ Topic 6
Foreign Currency Derivatives: Futures, and Options
  • Basics of Futures
  • Basics of Options

➤ Topic 7
Foreign Exchange Risk Management
  • Definition of Exposure
    ➢ Transaction Exposure
    ➢ Economic Exposure
      Operating Cash Flows
      Financial Cash Flows
  • Techniques for Exposure Management
    ➢ Forward Contracts
    ➢ Money Market Hedges = Synthetic Forwards
- Risk Shifting Measures
- Covering with Futures and Options

### Topic 8
**Financing Globally: The International Capital Markets**
- Global Cost of Capital and International Capital Structure
- The Eurocurrency Market
- Using the Euromarkets (Eurobonds, International Bonds, Euroequities, ADRs, ETFs, GRSs)
- Financial Innovations
- Microfinance and Islam lending

### Topic 9
**Other Currency Derivatives: Interest Rate and Currency Swaps**
- Basics of Swaps
  - Interest Rate Swap
  - Currency Swap

### Exam 2

### Topic 10
**International Portfolio Investing**
- Currency effects on investments
- Diversification

### Topic 11
**Foreign Direct Investment**
- Choice of International Business Activities
- Significance of Foreign Direct Investment
- Political risk and credit risk

### Topic 12
**International Capital Budgeting**
- Review of Net Present Value Model
- Adjusted Present Value Model
- International Adjusted Present Value Model

### Group Presentations

### Movie and Discussion on Financial Fraud
- *Rogue Trader with Liam Neeson*

### Review for Final (Bring in questions)

### Final Exam
Academic Integrity Policy

Academic dishonesty is any attempt by the student to gain academic advantage through dishonest means, to submit, as his or her own, work which has not been done by him/her or to give improper aid to another student in the completion of an assignment. Such dishonesty would include, but is not limited to: submitting as his/her own a project, paper, report, test, or speech copied from, partially copied, or paraphrased from the work of another (whether the source is printed, under copyright, or in manuscript form). Credit must be given for words quoted or paraphrased. The rules apply to any academic dishonesty, whether the work is graded or ungraded, group or individual, written or oral.
TCNJ's academic integrity policy is available on the web:
http://www.tcnj.edu/~academic/policy/integrity.html.

Americans with Disabilities Act (ADA) Policy

Any student who has a documented disability and is in need of academic accommodations should notify the professor of this course and contact the Office of Differing Abilities Services (609-771-2571). Accommodations are individualized and in accordance with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1992.
TCNJ's Americans with Disabilities Act (ADA) policy is available on the web:
http://www.tcnj.edu/~affirm/ada.html.